STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. RPU-02-3 RPU-02-8 ARU-02-1

FINAL DECISION AND ORDER

(Issued April 15, 2003)

SYNOPSIS[1]

On April 15, 2003, the Utilities Board (Board) issued its final order in Interstate Power and Light Company's (IPL) electric rate case, Docket Nos. RPU-02-3, RPU-02-8, and ARU-02-1. The Board granted IPL an increase in electric revenues of about 26.1 million dollars, or about 3 percent. IPL had requested an $82 million increase, or 9.6 percent.

Allocation of the increase moved rates closer together in IPL's four pricing zones. For residential customers, this is the first base rate increase in the southern zone since 1986; the first base rate increase in the northern zone since 1992; and the first base rate increase in the IPC zone since 1995. Evidence in the case demonstrated that IPL is fully integrated from past mergers and major cost items are no longer distinguishable by predecessor utilities or rate zones. While significant movement towards rate equalization was made, full rate parity was not achieved because of the Board's efforts to minimize the impact of any increase on lower end rate customers.

In setting IPL's electric rates, the Board adopted an 11.15 percent return on common equity for IPL. Proposed new electric power generating costs associated with IPL's Power Iowa program are not included in this rate proceeding, and will likely be the subject of a future rate increase request.

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[1]The purpose of this synopsis is to provide readers a brief summary of the decision. While the synopsis reflects the order, it shall not be considered to limit, define, amend, or otherwise affect in any manner the body of the order including the findings of fact and conclusions of law.

APPEARANCES

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I. PROCEDURAL HISTORY

On March 29, 2002, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) proposed electric tariffs, identified as TF-02-127 and TF-02-128. In TF-02-127, IPL proposed a temporary increase in electric rates that would produce additional revenue of approximately $22.4 million. In TF-02-128, IPL proposed a permanent annual revenue increase of approximately $82 million, or 9.6 percent, over current electric rates. IPL applied a uniform percentage across-the-board approach to allocate the proposed increase. The Board docketed the proceeding, identified as Docket No. RPU-02-3, and issued a procedural schedule by order issued April 26, 2002.

In addition to the Consumer Advocate Division of the Department of Justice (Consumer Advocate), the Board by various orders issued throughout this proceeding granted intervenor status to various entities. Intervenors: included the Lee County Energy Users Group (Lee County), Deere & Company (Deere), Community Coalition for Rate Fairness (CCRF), Lakeside Casino (Lakeside), the cities of Mason City, Dubuque, Washington, Grinnell, Clinton, and Newton (Cities), Iowa Consumers Coalition, MidAmerican Energy Company (MidAmerican), Tyson Foods Corporation (Tyson), Maytag Corporation (Maytag), Ag Processing Inc (Ag Processing), CPV Highlands, L.L.C. (CPV Highlands), Swiss Valley Farms Co. (Swiss Valley), Local 204, International Brotherhood of Electrical Workers (Local 204), and the Iowa Department of Natural Resources (IDNR).

On April 15, 2002, IPL filed an application for authority pursuant to Iowa Code § 476.6(10). IPL asked that the Board authorize the filing of a class cost-of-service study, rate design plan, and rate rebalancing proposal in a separate proceeding. Board approval for such a filing was necessary because § 476.6(10) restricted IPL from filing a new electric rate case within 12 months from the date of filing Docket No. RPU-02-3, or until a final order is issued in that docket, whichever is earlier, without Board approval.

The CCRF filed an objection on April 18, 2002, to IPL's rate increase request and asked that it be dismissed because no class cost-of-service study was filed to support IPL's rate design proposal, which applied a uniform percentage increase across all geographic rate zones. The Board, in an order issued May 3, 2002, granted IPL's application for authority to file a class cost-of-service, rate design plan, and rate rebalancing proposal in a separate rate proceeding and ordered IPL to make this filing on or before July 31, 2002. The Board noted that if it became necessary, the class cost-of-service, rate design, and rate consolidation proceeding case could be consolidated with the rate increase proceeding. The Board overruled CCRF's objection to the rate increase request, but reserved ruling on its alternative request for relief, which was to consolidate the two proceedings and extend the statutory ten-month deadline for decision.

Significant public input was received throughout this process. The Board held 12 consumer comment hearings. These hearings were held throughout IPL's service territory and at least one hearing was held in each of four IPL's pricing zones. The hearings were well attended and allowed the public an opportunity to address comments and concerns to the Board, IPL, and Consumer Advocate.

On April 26, 2002, Consumer Advocate filed an objection to IPL's request for temporary rates. The CCRF filed an objection to the request on April 29, 2002. IPL filed a response on May 8, 2002; the ICC made a filing on the same date that also addressed temporary rate issues. The Board issued the temporary rate order on June 27, 2002. IPL was granted a temporary rate increase not to exceed $15,453,627.

In setting temporary rates, the Board noted at pages 8-9 of the order that the most difficult issue in temporary rates was the allocation of those rates. The Board said:

> IPL's service territory in Iowa consists of service territory that formerly was served by four different utilities . . . Each of those utilities had different costs and rate structures and each rate structure was essentially "grandfathered" following the mergers. A rate freeze that was part of the merger of Interstate Power Company, IES Utilities Inc., and Wisconsin Power and Light expired this year, continuing the disparate rates and rate structure to the present. Some of the disparities between the four pricing zones are significant.

("Order Setting Temporary Rates, Approving Corporate Undertaking and Requiring Additional Information," Interstate Power and Light Company, Docket No. RMU-02-3, June 27, 2002).

In determining allocation of temporary rates, the Board said that clearly, temporary rates “should not be allocated to exacerbate the rate zone disparities.” Under the allocation adopted by the Board, most Northern and Southeastern zone rates received no increases, since they were generally the highest among the zones. A motion for reconsideration of the temporary rate decision, filed by the ICC and joined by the Cities, was denied on July 26, 2002.

On July 29, 2002, Consumer Advocate filed a petition alleging that IPL’s electric rates were excessive in the amount of $6,302,550. The Board, on August 26, 2002, accepted Consumer Advocate’s petition for consideration in Docket No. RPU-02-3. No separate procedural schedule was established because the issues in the rate reduction filing and IPL’s rate increase filings were largely the same.

IPL filed an application for approval of a class cost-of-service study, rate design, and rate consolidation proposal on July 31, 2002. The filing was in response to the Board’s May 3, 2002, order. The application reflected the approximately $82 million revenue requirement increase proposed by IPL in Docket No. RPU-02-3. The rate design and rate consolidation proposals would result in rate changes for most, if not all, of IPL’s Iowa customers.

On August 30, 2002, the Board docketed the class cost-of-service study, rate design, and rate consolidation application, identified as Docket No. RPU-02-8, and consolidated the docket with the pending revenue requirement filing, Docket No.

RPU-02-3. The Board extended the statutory ten-month deadline for a decision in Docket No. RPU-02-3 and indicated its intent to issue a decision in the consolidated dockets on or before April 15, 2003. Because intervenors in Docket No. RPU-02-3 all expressed an interest in rate design and rate consolidation issues, the Board had previously granted intervenor status in Docket No. RPU-02-8 to all who intervened in Docket No. RPU-02-3.

On August 14, 2002, IPL filed a request for an accounting ruling regarding the tax impacts of a change in accounting method. Corrections and amendments to the request were filed on September 13, 2002. The filing, identified as Docket No. ARU-02-1, was docketed and the Board, by order issued October 4, 2002, said that the issues raised by the request for accounting ruling would be considered in the consolidated rate dockets.

Consumer Advocate filed an amended petition for rate reduction on September 17, 2002, alleging that IPL's electric rates were excessive in the amount of $22,470,432. The Board accepted the filing for consideration in the consolidated rate dockets in its October 4, 2002, order.

Because there were discrete issues in each of the two consolidated dockets, the Board initially intended to bifurcate the hearing. However, because of IPL's request for accounting ruling and Consumer Advocate's amended petition for rate reduction, the Board determined in its October 4, 2002, order that the hearing would be held in three phases. The first phase of the hearing, dealing primarily with revenue requirement issues, began on October 22, 2002. The second phase began on December 3, 2002, and primarily addressed issues raised by the accounting ruling request and amended petition for rate reduction, rate of return, capital structure, and other finance issues. The third and final phase of the hearing began January 6, 2003, and primarily dealt with class cost-of-service, rate design, and rate consolidation or rebalancing issues.

Subsequent to the completion of the third phase of the hearing a briefing schedule was set. All parties had the opportunity to file initial and reply briefs.

II. PRELIMINARY STATEMENT

The case presents difficult policy choices. Not only has IPL proposed an increase in its revenue requirement, but IPL has four separate and distinct pricing zones. These four pricing zones are the result of mergers and consolidations that Iowa's electric utility industry has experienced in the past 15 years. IPL's service territory in Iowa was formerly served by four different utilities: Iowa Electric Light and Power Company (Iowa Electric), Interstate Power Company, Iowa Southern Utilities Company (Iowa Southern), and Union Electric Company (Union Electric).

Each of the former utilities that became part of what is now known as IPL had different costs and rate structures and each rate structure was essentially "grandfathered" following the mergers. A rate freeze that was part of the commitment made by the merging companies with respect to the merger of Interstate Power Company, IES Utilities Inc., and Wisconsin Power and Light expired in 2002. The rate freeze continued the disparate rates and rate structure to the present. Zonal disparities are particularly dramatic between most of the rate classes in the northern (Iowa Electric) and southern (Iowa Southern) zones. Iowa Electric and Iowa Southern merged in 1993.

Because of the rate disparities, rate equalization was the most contested issue in this proceeding. All intervenors in this proceeding filed testimony or comments in the brief regarding rate equalization. As one would expect, an intervenor's support or lack of support for rate equalization typically depended on the pricing zone in which a particular intervenor received service.

Consumer Advocate noted that IPL is operated as an integrated electric system and, therefore, rates across the pricing zones should eventually be equalized. Consumer Advocate further said it was inequitable for similarly-situated customers with similar cost characteristics to continue paying different rates in perpetuity because they happen to live in different pricing zones.

Many of the parties would agree, in general, with Consumer Advocate's statements. The problem is how much movement toward rate equalization should be taken in this case. The CCRF, which consists of large northern zone customers, advocated rate equalization be done immediately and completely in this case. While this has some surface appeal, the result would be to increase residential rates in the southern zone by an average of over $30 per month, or almost $400 per year. This is not an acceptable policy result because of the financial and social impacts such a decision would have on thousands of customers.

The ICC, consisting of large customers in the southern zone, claimed there was no evidence to justify rate equalization in this proceeding. This position, however, is contrary to assumptions made in the Board's rules—that a utility's system operates as an integrated whole, rather than as a collection of sub-systems. 199 IAC 20.10(2)"a" and "b." More importantly, it is contrary to how IPL's system is operated in practice--as an integrated, uniformly dispatched single entity. (Tr. 2598, 2602-03).

Merged utilities do not continue to operate as independent entities with separate sets of costs, replaced with merged system costs over time through a process of growth and attrition. Some parties argued that rate equalization should only occur when all the assets of the merged utilities existing at the time of the merger had been replaced with new, post-merger assets. Cross-examination revealed the fallacies and limits of this argument. (Tr. 3278-86, 3289-3301).

The two extreme views were "equalize now" versus "equalize never" or "at some distant, unspecified time." Neither approach is attractive and, in making its rate equalization decision, the Board had to balance the concepts of cost-based rates and fairness with the financial and social implications that would result. Failing to reduce the rate disparities in this proceeding would perpetuate what could be viewed as a subsidy; that is, customers in some zones are paying higher rates so customers in other zones can enjoy lower rates.

The Board first spoke on the issues of rate consolidation in the last litigated electric rate case involving a predecessor of IPL. In the final order issued on May 12, 1995, in Docket No. RPU-94-2, IES Utilities Inc., the Board noted that IES, a predecessor of IPL, had three different pricing zones, one the former Iowa Electric territory, one the former Iowa Southern territory, and the other the former Union Electric territory. The Board said at page 34:

> The Board believes rate consolidation of all three pricing zones is an appropriate goal so that customers in all the zones can share in the potential efficiencies of the mergers and acquisition which have created IES and its current corporate structure. IES is clearly operated as one utility. It is reasonable that rates should be based on utility-wide costs. However, progress towards this goal may have to be tempered to prevent rate shock . . ..

While rates were not consolidated in the 1995 case, the rate reduction ordered was only allocated to the higher-priced zones, which tended to reduce the overall rate disparities. The Board on rehearing affirmed the decision, noting that IES operated as one utility or operating system. The Board said that its cost-of-service rules, in general, assumed that for costing purposes, a utility is an integrated system rather than a separate collection of separate regional entities. 199 IAC 20.10(2). IES Utilities Inc., "Order Granting Rehearing in Part and Denying Rehearing in Part," Docket No. RPU-94-2 (June 30, 1995), p. 7.

Because of intervening circumstances like the recently expired four-year rate freeze, the Board has not had an opportunity to further address rate equalization until now. The Board took some steps towards rate equalization in its allocation of temporary rates. The Board will take additional steps in allocating final rates in this proceeding. While the Board's decision will likely not completely satisfy everyone in IPL's four pricing zones, the arguments of those in all of the pricing zones have been carefully considered. There is movement towards rate equalization for those customers in higher-priced zones, but it is tempered to avoid unreasonable financial consequences to those in the lower-priced zones. In addition, the Board's policy course is clear—it is time to make significant progress towards complete rate equalization. IPL may file a new rate proceeding this year and another next year when its Power Iowa generation facility is scheduled to come on line. (Tr. 496, 2562). The movement towards equalization will likely continue in those proceedings.

It is critical to note that there are means available to IPL customers to mitigate the impacts of rate increases. IPL has in effect an energy efficiency plan that contains several measures for customers of all classes to reduce and better manage their energy usage. A new IPL energy efficiency plan is currently before the Board. The Board encourages all customers to carefully examine the available programs to see which ones might benefit them.

III. TEST YEAR

The test year for this proceeding is calendar year 2001. Numerous pro forma adjustments to the test year were proposed. Adjustments that were contested by one or more of the parties at hearing will be addressed in the order; all adjustments that were uncontested will be reflected in the schedules attached to this order.

IV. RATE BASE ISSUES

A. Introduction

Several parties in brief addressed “ratemaking principles” that should apply in this proceeding. While the discussion is useful in addressing several adjustments to rate base and the income statement, the Board is mindful that, under Iowa law, there is one overriding ratemaking “principle.” Iowa Code § 476.8 directs that the Board is to determine rates that are “just and reasonable.” Other ratemaking guidelines or principles addressed in Chapter 476, such as the use of an historical test year, known and measurable adjustments, and the matching principle, should be viewed as tools available to the Board to reach its determination of just and reasonable rates.

Consumer Advocate in brief categorized three ratemaking principles as controlling in this proceeding. (Consumer Advocate Initial Brief, pp. 4-10). The three identified by Consumer Advocate are the test year principle, the matching principle, and the pro forma adjustment principle. Other parties, including Ag Processing and the ICC, argue that the historic test year is a ratemaking principle adopted in Iowa. The historic test year concept will be addressed first.

Iowa Code § 476.33(4) provides:

> The board shall adopt rules that require the board, in rate regulatory proceedings under sections 476.3 and 476.6, to consider the <u>use of the most current test period</u> possible in determining reasonable and just rates, subject only to the availability of existing and verifiable data respecting costs and revenues, and in addition to consider verifiable data that exists as of the date of the commencement of the proceedings respecting known and measurable changes in costs not associated with a different level of revenue, and known and measurable revenues not associated with a different level of costs, that are to occur at any time within twelve months after the date of commencement of the proceedings. For purposes of this subsection, a proceeding commences under section 476.6 upon the filing date of new or changed rates, charges, schedules or regulations. This subsection does not limit the authority of the board to consider other evidence in proceedings under sections 476.3 and 476.6. (emphasis added).

Under this section, the Board has generally used the historic test year concept as the starting point for setting rates. In this proceeding, the test year is calendar year 2001. However, the Board has also recognized the regulatory lag inherent in the use of a historical test year and has consistently allowed post-test year adjustments in appropriate circumstances, e.g., when all changes to costs and revenues can be calculated. Ag Processing's and the ICC's arguments that adjustments be disallowed solely because they are post-test year adjustments have no merit. It should be noted that in this case a number of adjustments were agreed to or uncontested, some that increased the revenue requirement and some that decreased the revenue requirement. Consumer Advocate, at hearing and in brief, recognized that some post-test year adjustments were appropriate, but limits the application of these adjustments as discussed below.

In tandem with the historic test year, Consumer Advocate espouses a pro forma adjustment principle. In effect, Consumer Advocate is arguing that the Board cannot, pursuant to Iowa Code § 476.33(4), consider pro forma adjustments that are not supported by existing and verifiable data at the commencement of the proceeding. Consumer Advocate has consistently made this argument in the past but the Board has rejected it because it ignores the last sentence of the subsection, which provides that "[t]his subsection does not limit the authority of the board to consider other evidence in proceedings under sections 476.3 and 476.6." There are numerous examples of the Board allowing pro forma adjustments not supported by existing and verifiable data at the time of filing of the rate case.

One early example is in Iowa Power and Light Company, Docket No. RPU-83-24. The Board held that the costs associated with Louisa Generating Station (LGS) would be included in rate base even though the costs, as of the date of the commencement of the proceeding, were based on budget projections and estimates. However, the plant was used and useful and in service at the time of the Board's decision. The Board said that to deny recovery would deny the utility the right to recover its legitimate costs of doing business because otherwise there would be no opportunity to recover costs incurred prior to the time such expenses would be verified. See also, Iowa Power and Light Company, "Final Decision and Order," Docket No. RPU-88-10 (6/1/89); Interstate Power Company, "Final Decision and Order," Docket No. RPU-83-27 (10/18/83).

Historic test year and pro forma adjustments are important, but they are really just the beginning of ratemaking. Perhaps more important are other ratemaking principles. One of these is the known and measurable standard. Even the use of this standard, however, is not mandated by statute. The statute only requires that the Board "consider" such information in setting rates. The last sentence of section 476.33(4) gives the Board broad latitude in considering information, with the overall statutory standard one of setting "just and reasonable rates." The statute does not rule out the Board's use of judgment and common sense in setting rates.

The Board in its rules characterizes the known and measurable changes as follows:

> In rate regulatory proceedings under Iowa Code sections 476.3 and 476.6, the board shall consider verifiable data, existing as of the date of the commencement of the proceedings, respecting known and measurable changes in costs not associated with a different level of revenue and known and measurable revenues not associated with a different level of costs, that are to occur within 12 months after the date of the commencement of the proceedings.

199 IAC 7.11(2) (emphasis added).

In other words, under the Board's rules, known and measurable changes that can be verified as of the date of filing, even if they do not occur until 12 months after the date of commencement of the proceedings, can be considered. Once again, however, the rule does not limit the Board's consideration of other evidence. In fact, known and measurable changes that occur after the date of filing could be considered and adopted.

In the temporary rate decision in Iowa-American Water Company, Docket No. RPU-01-4 (July 16, 2001), the Board allowed the inclusion in rate base of capital projects that were completed and providing service to customers by the date of the temporary order. These projects were not in-service on the date of filing. The Board found the costs were known and measurable because affidavits providing current cost information were filed subsequent to the initial case filing. The Board rejected Consumer Advocate's arguments that these were not known and measurable changes because the costs were only estimates on the date of filing.

Related to the known and measurable standard is Consumer Advocate's third ratemaking principle, the matching principle. The matching principle is a fundamental principle of test year ratemaking, providing that costs (both investment and operating) and revenues must match, i.e., they be consistent. Unless there is a matching of costs and revenues, the test year is not a proper one for fixing just and reasonable rates. The inclusion of costs without the matching revenues will produce excessive rates. The inclusion of revenues without the matching costs will deny the utility reasonable rates. Davenport Water Company, 190 N.W.2d 583, 605 (Iowa 1971).

However, before the matching principle even comes into play, an increase in expenses or revenues resulting from a pro forma adjustment must be shown. For example, in Northwestern Bell Telephone Company v. Iowa State Commerce Comm'n, 359 N.W.2d 491 (Iowa 1984), the Commission (predecessor to the Board) made an adjustment because it was shown that a decline in the number of employees would occur. Northwestern Bell contended that under the matching principle there should be a corresponding adjustment for a resulting increase in other expenses, such as for automated equipment. The Commission had not made an adjustment for any increased expenses.

The Iowa Supreme Court reversed a district court finding that the Commission had to make an expense adjustment for a resulting increase in expenses. Under the statute, "verifiable" data and "known and measurable" costs and revenues must appear before the matching principle comes into play. Northwestern Bell's claim of increased costs rested only on speculation. The matching principle was not applicable because the resulting increase in expenses was not shown.

The final related concept that is important to this case is the "used and useful" standard. Used and useful is derived from United States Supreme Court holdings that a utility is entitled to a reasonable return on the value of property used to render services, but it is not entitled to have included any property not used or useful for that purpose. Iowa-Illinois Gas & Elec. v. Iowa State Commerce Comm'n, 347 N.W.2d 423, 428 (Iowa 1984). The rule is based on the notion that, as economic captives, consumers should only pay for the utility properties that are actually used or useful in rendering services to them. In the Iowa Power decision noted above, LGS was used and useful because it was in-service as of the date of the decision. If the plant had not been in-service, inclusion of plant costs in rate base might have been inappropriate.

The ICC objected to several adjustments that have not been contested by other parties solely because the adjustments occurred outside the test year. These adjustments represent known and measurable changes and do not violate the matching principle. Post-test year adjustments for postage, salaries and wage increase, firm wheeling expense, employee benefits, IT infrastructure costs, electric system maintenance, and decreased purchased power sales as proposed by IPL will be allowed.

While the ratemaking principles discussed above are important in the Board's analysis of the issues, particularly with respect to rate base and income statement adjustments, none of the standards are controlling in a particular instance. The primary statutory directive for the Board is to set "just and reasonable" rates and exceptions to the various ratemaking principles are justified if they further that statutory goal.

B. Enterprise Resource Planning

The Enterprise Resource Planning (ERP) project was placed in service in 2002. The ERP project is designed to capture efficiencies in purchasing practices. The capital costs are shown in Schedule C-1e and the operation expenses and depreciation are shown in Schedule D-37. IPL proposed to add the capital costs to its rate base. Operation expenses include both one-time expenses and ongoing expenses. (Tr. 411). IPL proposed to amortize one-time expenses over three years and ongoing expenses over five years.

Consumer Advocate, Ag Processing, and the ICC opposed the adjustments because the project did not go in-service until October 1, 2002, which was post-test year and subsequent to IPL's May 2002 rate case filing. (Tr. 474). The ICC also claimed that IPL had not included all the benefits of the ERP project in its adjustments.

The Board will allow IPL's proposed adjustments. The ERP project was in service prior to commencement of hearings in October 2002 and, therefore, it was both used and useful to customers and known and measurable. Cost savings were included in the adjustment, including reduced information technology staffing and lower materials and supplies inventories. (Tr. 451). Allowing recovery for major expenditures that are known and measurable during the time it takes to complete a rate case is consistent with Board precedent. (Tr. 447-48).

C. CIS Integration Project

IPL placed a new computer information system (CIS) in-service in June 2002. Like the EPR project discussed above, some intervenors objected to IPL's adjustments because the system was not placed in-service until after the test year.

The costs are known and verifiable and IPL has adjusted expenses to reflect cost savings that correspond to the increased costs. In addition, IPL removed the cost of the old system from its rate base. (Tr. 661-62). The adjustments will be allowed.

D. Major Plant Additions

Several major plant additions were in-service by the end of test year 2001 and IPL proposed adjustments to reflect these additions. Ag Processing objected to the adjustments, claiming that IPL had not shown all the plant additions would benefit customers. The adjustments will be allowed, as the record indicates these additions are completed and providing service to customers. (Tr. 219-20, 245; IPL Schedule C-1).

In addition, the Board will allow depreciation to be calculated at 50 percent. This is consistent with past practice. Contrary to Ag Processing's assertions, it is not appropriate to include an entire year of depreciation for these projects because they were not in-service for the entire year. (Tr. 245-46).

E. Post-Test Year Combustion Initiative

IPL proposed an adjustment of $6,921,874 to rate base to cover the costs incurred with the combustion initiative (CI) project. IPL initiated this program in a proactive effort to reduce plant emissions at its power plants, including ML Kapp in Clinton. In addition to the rate base adjustment, IPL proposed a ten-year straight-line method of depreciation, except for computer hardware and software. Consumer Advocate accepted the costs of the program through April 30, 2002, but rejected costs incurred after that date. Consumer Advocate also urged that the depreciable life of the CI assets be set at the useful life of the associated generating unit. The ICC objected to the entire adjustment because it was post-test year.

Consumer Advocate argued, as it did with the ERP program and CIS project, that any adjustment for costs incurred after April 30, 2002, is not known and measurable. The Board rejects this argument because it appears from the record that IPL has in fact made expenditures after April 30, 2002. The Board has consistently allowed adjustments for major expenditures that do not become known and measurable until after the filing of the rate case. However, in this instance, while the expenditures may be known and measurable, the record does not contain persuasive evidence that expenditures made after April 30, 2002, have been placed in service and are used and useful to customers. The Board will adopt Consumer Advocate's adjustment, $4,666,357, because it represents the amount of the initiative that has been shown to be in-service and used and useful.

The ten-year straight-line method of depreciation proposed by IPL will be adopted. This method is consistent with guidelines approved by the Federal Energy Regulatory Commission (FERC) in Docket No. RM99-7-000. Because of the unknowns associated with CI technologies, tying its useful life to the life of the associated generating unit may not be reasonable. The straight-line method provides consistency and alleviates some of the unknowns associated with CI technology. IPL should be encouraged to continue its proactive approach to emissions control and improved fuel efficiency, providing tangible financial benefits to customers and quality of life benefits to all Iowans.

F. Vehicle Replacement Program

A rate base adjustment of over $4 million was proposed by IPL to cover the costs of the vehicle replacement program. This is IPL's fleet replacement plan based on a claimed industry standard of replacing 10 percent of fleet inventory annually to keep its fleet technologically current and mechanically sound. (Tr. 225). A corresponding depreciation adjustment was also proposed. Consumer Advocate contended the adjustment should be limited to amounts known and measurable as of the date the case was commenced, March 29, 2002. Consumer Advocate's rate base adjustment was $1,421,036. Consumer Advocate also had a corresponding depreciation adjustment using the same depreciation rate as IPL. The ICC objected to any adjustment as being post-test year and argued that IPL had not established that its standard for replacing vehicles was reasonable.

The Board will adopt Consumer Advocate's proposed adjustments. IPL has not made an adjustment for cost savings for expenditures incurred after March 29, 2002, and, therefore, allowing the rate base adjustment for expenditures incurred after that date would violate the matching principle. Such an adjustment has been made for expenditures incurred prior to that date.

Vehicle replacement must be done on an ongoing basis. There was much testimony at hearing as to whether there is an industry ten-year standard. The evidence presented did not support such a standard. For example, no published industry guidelines were introduced that contained an industry vehicle replacement standard. However, the lack of an industry standard does not defeat the need to develop a program to replace vehicles on an ongoing basis to facilitate the provision of electric service in a safe and reliable manner.

G. Distribution System Replacement Program

IPL has a program for replacement of underground and overhead distribution and substation facilities as they age and finish their useful service life. In determining what facilities need to be replaced, IPL looks at electrical performance, reliability, and mandated replacement needs. (Tr. 113-20). Such a program is critical for maintaining reliable electric service.

However, IPL's adjustment included amounts for facilities that it is planning to replace, not facilities that have actually been replaced. Consumer Advocate's proposed adjustment, net of depreciation, is $1,736,657. This recognizes new distribution plant investment that was in-service as of May 1, 2002. IPL did not establish that additional amounts requested were for facilities that had actually been placed in-service. Again, the Board rejects the arguments put forth by the ICC and Consumer Advocate that such adjustments are inappropriate because they are post-test year or after the May 29, 2002, filing date, but the Board will not accept adjustments for facilities that have not been shown to be used and useful to customers.

H. FERC Account 182 Deferrals

IPL proposed to include in rate base certain costs contained in FERC Account 182 associated with the costs of studies mandated by the Nuclear Regulatory Commission (NRC). Including these items in rate base allows IPL to earn a return on the costs of the studies. Consumer Advocate argued these should be removed from rate base because they do not represent items commonly included in rate base, such as plant in-service or working capital costs.

While costs associated with these studies were included in rate base in IES Utilities Inc.'s last rate case, Docket No. RPU-94-2, it was a relatively small amount and the issue was uncontested. The precedent from that docket is of little guidance in addressing this issue.

The Board has consistently denied utilities the opportunity to earn a return on operating expenses. The Board believes these studies are more analogous to an operating expense, such as costs associated with termination of a coal contract, than a capital expense. Iowa Electric Light and Power Company, "Order Modifying Proposed Decision and Order," Docket No. RPU-86-7 (March 4, 1987). The Board will allow recovery of these costs, $11,024,241, over an amortization period of four years, but will not allow IPL to earn a return on the balance.

V. INCOME STATEMENT ISSUES

A. Post Employment Benefits

IPL proposed an adjustment to post-employment benefits other than pensions (OPEB) to recover increases in those costs. IPL relied on a study by its actuary, Towers Perrin, in determining the appropriate level of costs to include in rates. The adjustment includes both direct and indirect costs. (Tr. 373).

Consumer Advocate recommended use of a three-year average for OPEB costs. Consumer Advocate proposed a three-year average because the costs have fluctuated significantly over the past four years due to changes in discount rates and medical trends. Consumer Advocate believes IPL has the ability to significantly influence those rates and, therefore, the costs. (Tr. 789-91). The ICC objects to any adjustment to test year 2001 costs as being out of period.

Consumer Advocate's three-year average approach is over-simplified and does not adequately consider the effect the financial markets have had on the earnings of pension funds since 2000. Earnings on these funds are used to cushion the amount that ratepayers provide to OPEB funding. IPL has no control over the market downturn, decreasing interest rates, or increases in medical trend rates. (Tr. 517). Both direct and indirect costs have been actuarially determined, and the Board will allow the total amount determined by the actuary, $1,768,724, as the appropriate amount to include in rates. However, the Board will direct IPL to obtain Board approval for the trust account in which the resulting reserves are to be deposited pursuant to 199 IAC 7.11(3)"b."

B. Use Tax Audit Expense

IPL proposed to recover the costs of a use tax audit recorded in the test year over a three-year amortization period. Ag Processing recommended that the costs be disallowed because IPL did not establish that they were ongoing. In the alternative, Ag Processing recommended that the costs be amortized over a six-year period, which was the interval covered by the audit. (Tr. 945).

Use tax audits have been a recurring issue in past cases involving IPL's predecessor utilities. (Tr. 461). In one of the more recent cases where a use tax audit was at issue, the Board allowed a three-year amortization period. Iowa Electric Light and Power Company, "Final Decision and Order," Docket No. RPU-01-9 (August 31, 1992), p. 9.

The Board will allow recovery of the use tax audit expense. A three-year amortization period for recovery is consistent with Board precedent and the recurring nature of the audits.

C. Levelize Transmission and Distribution Maintenance

Interstate proposed an adjustment to levelize, over a five-year period ending with the test year, maintenance expenses of overhead lines. Consumer Advocate disagreed with the adjustment, arguing that it uses speculative inflation indicators and that the costs do not fall outside the Board's normal standard for variance. In addition, Consumer Advocate said that IPL did not establish that test year amounts were abnormally low. (Tr. 620).

In reviewing both IPL's and Consumer Advocate's calculations, it appears that Consumer Advocate's calculations do not include any inflation adjustment. IPL's calculations, which include a reasonable inflation adjustment, demonstrate that test year expenditures were 12.6 percent below the five-year average. (Tr. 434). This difference is outside the Board's normal standard of variance, which has generally been 8 or 9 percent. This has been used in Docket Nos. RPU-89-9, RPU-91-9, and RPU-94-2. An adjustment of $906,823 will be allowed.

D. CEIDS Project

IPL asked for a $268,897 adjustment to test year expenses to cover the cost of a research and development project initiated by the Electric Power Research Institute (EPRI) called CEIDS, which is an acronym for "Consortium for an Electric Infrastructure to Support a Digital Society." CEIDS is intended to study and develop mechanisms by which electric utilities can better serve the quality demand of the customers. The adjustment represents the Iowa portion of a commitment that will be $500,000 per year for four years.

Consumer Advocate and Ag Processing opposed the adjustment. Among the objections were that the expense had not been incurred and may not ever be incurred.

IPL made it clear that this research commitment will not be made absent Board inclusion of the adjustment in rates. While normally an adjustment for expenses that have not been incurred would be disallowed, research is vital to ensure that Iowa continues to enjoy adequate and reliable electric service. An exception to the known and measurable standard as generally applied by the Board is justified to fund vital research. Iowa's utilities are too small to undertake such major projects on their own, so they must be funded by utilities on a national and global scale through groups like EPRI. The CEIDS project, in particular, meshes well with the purpose of new rules recently adopted by the Board in Docket No. RMU-02-3, which is to enhance electric delivery system reliability.

Because the Board is making an exception to its general application of the known and measurable standard, the Board will require IPL to provide proof of the research payment on an annual basis, and to provide the Board and Consumer Advocate copies of all reports that may be issued. The Board understands that some information contained in the reports may be confidential and proprietary. IPL may file a request for confidentiality if that is the case, pursuant to 199 IAC 1.9.

E. Line Clearance to Four-Year Cycle

IPL proposed a pro forma adjustment that will allow it to move closer to what it deems an optimal tree trimming cycle. In the former Iowa Electric service territory, IPL has achieved a five-year cycle and in the former Interstate Power territory, a four and one-half year cycle. The adjustment moves IPL to a four-year cycle. (Tr. 403-04).

Consumer Advocate objected to the adjustment as speculative because the actual cost of the change to a four-year cycle has not been determined. IPL's calculations are not based on actual expenditures but rather on amounts it believes need to be budgeted to move to a four-year cycle.

Consumer Advocate and Ag Processing also objected to the adjustment because no benefits are quantified and reflected in the adjustment. IPL states that it primarily initiated the change because of reliability and safety concerns, but agreed that once it is implemented a faster line clearance cycle would ultimately lead to reduced tree trimming and outage related costs. However, these savings are not expected to be realized until the next tree trimming cycle, which will begin in four years. (Tr. 525-26).

The Board will deny the adjustment. While the Board recognizes that savings are not expected immediately, the actual costs associated with this move appear at this point to be budgeted amounts only and not known and measurable amounts that have actually been expended. Safety and reliability are primary concerns for the Board and ratepayers, and IPL's move toward a reduced cycle should bring improvements in both areas. <u>See</u>, <u>Report on Electric Delivery Reliability Inquiry (Staff Analysis)</u>, Docket No. NOI-00-4, December 2001. IPL is commended for the change in its line clearance cycle. It is inappropriate, though, to include an adjustment when the record does not clearly establish post-test year expenditures actually incurred and not just budgeted.

F. Discontinuance of Nuclear Insurance Premium Refunds

Because IPL no longer expects to receive refunds of its nuclear insurance premiums, IPL added $2,270,00 to expenses. In prior years refunds were routinely received, but after the events of 9/11 the fund, known as NEIL, or Nuclear Electric Insurance Limited, notified IPL that refunds would likely be reduced by 60 percent. As it was, however, refunds in the same amounts as prior years were made in March 2002. (Tr. 519).

Consumer Advocate, the ICC, and Ag Processing objected to the expense increase. Each party argued that elimination or reduction of refunds was speculative. The Board agrees. Refunds were paid in 2002. Based on the record, it is not yet clear whether refunds will be paid in 2003. Including the adjustment now would be speculative and violate the known and measurable standard.

G. Electric System Maintenance Initiatives

Interstate and Consumer Advocate ultimately agreed to an adjustment for four initiatives related to on-going electric system maintenance. These initiatives are: 1) predictive maintenance; 2) substation inspection; 3) recloser and distribution circuit breaker maintenance; and, 4) preventive and corrective maintenance. (Tr. 405). Seven positions were filled prior to the filing of the rate case and the Iowa portion of the adjustment is $273,412.

The ICC and Ag Processing objected to the adjustment, claiming that all of the expenses have not been justified. The Board will allow the adjustment. Initiatives like these are important to maintain the electric system and benefits from things like predictive maintenance are difficult to quantify, but are real nonetheless. Most, if not all, of any savings should be reflected in other maintenance expense accounts.

H. Farm Rewiring Project

IPL proposed an adjustment to include the costs of a farm-rewiring program. A similar program is offered in Wisconsin by an Alliant Energy affiliate, Wisconsin Power and Light. The program would be available to all farms in IPL's service territory that have livestock operations and will focus on wiring compliance and safety. (Tr. 410). All customer classes, not just the farm class, would pay for the costs of the program.

Consumer Advocate and the ICC objected to the program, claiming it represents a subsidy to a particular group of customers at the expense of all other customers. IPL acknowledged there was a subsidy in the program but believed the subsidy was warranted because of the safety benefits. (Tr. 443).

The goals of the program are laudable, but the Board is not convinced from the evidence presented that the overall benefits of the program justify it being subsidized by non-farm customers. The adjustment will be denied.

I. MICP/EICP Awards

IPL included in test year expense the entire amount of costs associated with its MICP/EICP awards, which are management and employee incentive compensation plans. The incentive pay plans are based on company performance, business unit performance, and individual performance. (Tr. 330). Both Consumer Advocate and the ICC objected to IPL's inclusion of the costs in the test year. Consumer Advocate and the ICC noted that generally the Board only includes 50 percent of the amount of such plans in the revenue requirement, but in this instance Consumer Advocate urged that the test year amount be reduced to zero because IPL made no incentive payments for 2002 and it is uncertain when future payments will be made. (Tr. 814, 828).

The Board has long supported well-designed employee pay plans, particularly those that are based, at least in part, on individual performance. However, it is undisputed that no payments were made for 2002 and, based on the financial targets currently contained in the plans, it is not known when payments may resume. IPL was unable to provide any projected payouts for the years 2003 through 2005. (Tr. 345). The most reasonable representative amount to include in rates for these plans is zero, and Consumer Advocate's proposed adjustment will be accepted.

J. Loss of Margins from Four Wholesale Customers

IPL proposed an adjustment to reflect test year decreases in wholesale revenues and expenses associated with four wholesale customers who have discontinued taking service from IPL. The CCRF argued that for the adjustment to be allowed, there must be recognition of revenue resulting from IPL providing transmission service to deliver energy from non-IPL generation sources to three of the customers. (Tr. 2870-71). IPL made this adjustment. (Tr. 74). IPL's net adjustment also includes fuel and wheeling expense reductions. (Ex. 2, Sch. D-39; Tr. 43; Ex. 6, Rebuttal Sch. K; Tr. 74).

Ag Processing questioned the lack of detail concerning the discontinuance of service by the four customers. However, a review of the record indicates that sufficient detail was provided and that the loss of these customers is expected to be for the long-term. This was corroborated by the CCRF. (Tr. 2870-71). The ICC argued no adjustment should be made because the lost sales could be replaced by sales to other customers. While this may occur in the future, there is nothing in the record to indicate the lost sales have been replaced. The Board will allow the adjustment, which is a net lost margin of $2,018,338.

K. Significant Load Changes

Based on specific input from IPL's account management personnel, IPL proposed an adjustment to sales units. Account management personnel provided information on new customers who had recently located to IPL's service area as well as established customers who had increased or decreased usage. The survey covered all customers that met certain usage thresholds. (Tr. 99-103). Based on the results of this survey, IPL proposed net reductions of $5,068,868 in revenue and

$4,081,392 in fuel and energy expense, for a net lost margin of $987,476. (Exhibit 2, Schedule D-41; Tr. 44-45).

The ICC objected to the adjustment because it was out-of-period and because the survey was not adequate. The evidence, however, demonstrates that a comprehensive analysis was done and that the adjustment for decreased revenue was offset by decreases in fuel and energy costs. This is a known and measurable change of the type consistently allowed by the Board. 199 IAC 7.11(2).

However, the amount of the adjustment must be corrected to match IPL's supporting workpapers. The purchased power reduction of $646,735 shown in IPL's Exh. 2, Schedule D-41 should be adjusted to $809,250 to match the purchased power reduction shown in supporting workpaper WP-2. This reduces the net lost margin adjustment from $987,476 to $824,601.

L. Farm Customers Moving to Lower LPL Rate

Some farm customers in IPC pricing zone would qualify for service under the Large Power and Lighting (LPL) rate, which is lower than their current rate. Consistent with the practice in other IPL pricing zones, qualifying customers who will benefit from the switch will be transferred immediately. IPL proposed a revenue adjustment to reflect the transfer of these farm customers to the lower rate.

Consumer Advocate said the adjustment was speculative and based on the current pricing relationship between IPC farm and LPL rates. Consumer Advocate noted this pricing relationship between the two rates may change as a result of the Board's decision in the pending rate case dockets.

Because IPL is proposing no rate structure changes, the potential for substantial change between IPC Farm and LPL rates as a result of the decisions in these dockets is minimal. (Tr. 76). The revenue adjustment appears reasonable, particularly since no affirmative action on the part of the customer is required. The revenue adjustment is also properly matched by corresponding adjustments to test year IPC Farm and LPL billing determinants. This means any prospective changes in the relationship between the two rates will be reflected in final rate revenues. The adjustment will be allowed.

M. Eliminate Non-Fuel Expense from Red Cedar

The only dispute between IPL and Consumer Advocate with respect to this adjustment dealt with how to make the adjustment to bring the revenue requirement related to the Red Cedar Cogeneration Station to the level of 2.9 cents per kilowatt hour as agreed to by the parties in Docket No. SPU-98-25. IPL proposed to increase test year revenue while Consumer Advocate preferred to decrease test year operating expense. The Board believes that Consumer Advocate's adjustment is the correct one. Because the amount being adjusted is a test year expense, the adjustment should be a decrease to test year operating expense. As noted by Consumer Advocate, the revenue requirement is the total of all reasonable costs to provide utility service at a fair profit. Revenues are not a component of the revenue requirement and an adjustment to revenue will not impact the revenue requirement.

N. Decommissioning Expense

One of the most significant expenses in the operation of a nuclear power plant is the amount set aside on an annual basis to cover future costs of decommissioning the plant. IPL requested that $13.2 million annually be included in Iowa rates to cover decommissioning. There are four areas of decommissioning expense that were contested by one or more parties. Each will be addressed separately.

Before addressing the contested issues, it should be noted that pursuant to Board order issued April 3, 2003, a technical conference was held on April 8, 2003. The conference was held for the Board's technical staff to ask questions of IPL and Consumer Advocate representatives regarding changing inputs to their decommissioning models so that the models could be run to reflect the Board's decisions. IPL at the conference accepted Consumer Advocate's model, but noted that it failed to take into account allocation of decommissioning costs between Iowa and other state jurisdictions. IPL performed this calculation, which reduced the amount of decommissioning expense included in rates. IPL is commended for bringing this matter to the Board's attention.

1. Contingency Factor

IPL included a contingency factor of approximately 17 percent in its nuclear decommissioning cost estimates. The ICC opposed a contingency factor, claiming that technological advances over the next several years should reduce decommissioning expense. In addition, the ICC notes that IPL's decommissioning study was performed by an experienced consultant, which should minimize the probability of substantial cost increases.

The current estimate to decommission the Duane Arnold Nuclear Center (DAEC) is $564.3 million. (Tr. 1326-27). Based on the history of the nuclear industry with its ever-increasing cost estimates, many caused by increasingly stringent regulatory requirements, the Board believes that a contingency factor must be included or there is a substantial risk that the decommissioning fund will be underfunded. A significant undercollection could adversely impact ratepayers at the time DAEC is actually decommissioned. If there are technological advances in the next several years that lower decommissioning costs, the level of collections can be adjusted at that time. The contingency factor proposed by IPL, and supported in its study, is reasonable.

2. Inflationary Time Period

The Board has consistently used a three-year period for estimating inflationary effects. In its final order issued May 12, 1995, in IES Utilities Inc., Docket No. RPU-94-2, the Board noted at page 14 that "[a]llowing inflation for three years ensures that current ratepayers pay only for the costs incurred to provide them service. It also allows for periodic Board review of these substantial costs so appropriate periodic adjustments can be made." Consumer Advocate and Ag Processing urged the Board to continue this practice.

IPL proposed to include the effects of anticipated inflation through the year 2014, when DAEC's current license expires. The Board is not persuaded to depart from its prior decisions. Using a three-year period for estimating inflationary effects results in a more equitable collection of funds from current ratepayers.

3. Inflation Rate

IPL determined the inflation rate used in its calculations, 3.08 percent, by averaging the annual inflation rate for the period 1926 to 2000. (Tr. 1397). Ag Processing recommended using the Department of Energy's (DOE) 20-year forecast of 2.7 percent, which is close to the DOE's estimate for the period of 2002 to 2004 of 2.5 percent. (Tr. 1407).

The Board will use the 2.7 percent inflation rate proposed by Ag Processing. It is a projected time period and the resulting rate is supported by DOE projections for the years 2002 to 2004. Because future costs are being funded, it is more appropriate to use a projected rate of inflation rather than a historical rate. While the historical rate may be verifiable, a projected rate is more likely to reflect the inflation rate during the time period between rate cases, i.e., the time period for which decommissioning collections are being set.

4. Expected life of DAEC

The current license for DAEC expires in 2014. IPL said that at this time it has no definite plans regarding license renewal. Lee County does not believe it is appropriate to assume there will not be a license renewal when considering the license extensions, pending extensions, and planned extensions for other nuclear plants. The expected life of DAEC is important for decommissioning funding requirements. For example, if DAEC's license is not extended, substantial increases to the current funding levels could be required if DAEC is decommissioned in 2014. If, however, DAEC's license is renewed and it continues operation past 2014, the current methodology provides a better matching of funds collected with customer use of the plant.

While IPL has not made a decision on license extension, there is no reason to believe that the economic factors that have prompted other nuclear plant owners to apply for extensions will be significantly different for IPL. The current methodology will be continued, which assumes that DAEC's license will be extended at the appropriate time.

O. Cost Increases Relating to NMC

In IPL's initial filing, it proposed a $1.5 million adjustment to test year costs to cover budgeted and expected increases in DAEC's share of Nuclear Management Company (NMC) costs. (Tr. 1330). IPL later reduced the amount to $840,000 because, based on current information, the increase was less than originally anticipated.

Consumer Advocate said the amount of the increase was unknown but in any event should be disallowed because the NMC should reduce, not increase, DAEC costs. It is apparent that the NMC is not a cost savings measure when inflation and other factors are considered. (Tr. 1426-27). Also, some of the cost benefits of NMC, if there are any, should be reflected through the energy adjustment clause. The Board is mindful that IPL did not present the NMC as a cost savings measure, but rather as a management tool, when it filed for the reorganization with respect to the transfer of operational control of DAEC to NMC.

The difficulty with this adjustment is that the record does not provide as much underlying support for the adjustment as the Board normally requires. Pro forma adjustments that are proposed need to include sufficient evidence for a prima facie case, which includes supporting testimony and not just pages of numbers. Here, it was unclear whether all the costs requested had actually been expended, although one reference at hearing indicated that the $840,000 per year represented actual costs while the prior proposed adjustment of $1.5 million was based on estimates. (Tr. 1347). However, the record was still not clear whether all the costs had actually been expended as of the time of the hearing.

Because of the lack of clarity of the record, the Board will allow only 75 percent of the revised adjustment. IPL's adjustment apparently includes costs being incurred throughout 2002. The Board will assume costs were incurred equally during the year and will cut off recovery as of September 30, 2002, prior to the first phase of the hearing. Nine months of recovery, or 75 percent, is the most the record will support. The Board will not totally deny the adjustment because the Board believes the NMC has had a positive impact on IPL's operations, but the Board expects appropriate supporting documentation and testimony for adjustments proposed in future proceedings.

P. Eliminate FAS 87 Pension Expense

IPL used a single year of data to compute pension expense, as opposed to the three-year average proposed by Consumer Advocate. A three-year average has previously been used because of the fluctuations in pension expense from year to year.

However, in this case IPL demonstrated, supported by information from an actuary, that pension expense fluctuations have been caused by declines in investment returns and increased medical expenses. (Tr. 452, Exhibit 2, Rebuttal Schedule I). The result is that pension increases are expected to continue and IPL's proposal to use a single year of data, the updated 2002 amount, provides the most representative level of pension expense to include in setting rates.

Q. Cash Working Capital Amortization

The 2000-2001 heating season costs contributed to many electric customers being unable to pay their bills in a timely manner. Consistent with the Board's policy to meet the challenges caused by increased costs, IPL worked with as many customers as possible to arrange extended payment options rather than disconnect service. Compliance with the Board's policy required IPL to incur additional costs to finance receivables. IPL proposed a test year adjustment to revenues of $542,037, which represents one-third of the actual cost to IPL of the increased accounts receivable. Consumer Advocate said this adjustment decreases test year revenue to an amount that is unrepresentative of future operations.

There is no question that IPL incurred additional costs in meeting the challenges presented by the spike in energy costs. IPL is to be commended for stepping forward to work with customers to avoid disconnection. IPL should be compensated for responding to the public welfare needs of its customers and its adjustment will be accepted. While normally an adjustment that sets an unrepresentative test year amount would not be accepted, normal ratemaking standards must be adapted to situations such as this one, where immediate response was required to meet an urgent public need.

R. Net Salvage Expense/Depreciation Rates

IPL included net salvage in its calculation of depreciation rates. The ICC maintained that net salvage should be considered an operating expense and should not be included in book depreciation rates. Instead, IPL should be required to use its ten-year average salvage level as an operating expense rather than the test year level.

IPL calculated its depreciation rates consistent with prior rate cases. The ICC's approach is contrary to standard depreciation expense calculations which include net salvage. (Tr. 262). The Board is not persuaded that there should be a change to the standard method of calculating depreciation and the ICC's proposed change and adjustment will be denied.

S. Property Taxes

IPL presented an adjustment to reduce test year property taxes. Consumer Advocate concurred in the need for such an adjustment. The Board will accept Consumer Advocate's adjustment of $93,251. Exhibit 210 in this proceeding is consistent with the exhibit presented in IPL's recent gas case, Docket No. RPU-02-7, where the IPL and Consumer Advocate agreed that the exhibit contained the appropriate property tax adjustments.

T. DAEC Refueling Cycle

Lee County questioned whether the 21-month refueling cycle for DAEC was appropriate given the Nuclear Management Company's plans to transition to a 24-month cycle. Testimony in this case is that the refueling cycle is currently 18-months. (Tr. 1373). IPL has been conservative in its approach by assuming a 21-month cycle. If the transition to a 24-month cycle is successful, this would appropriately be reflected in a future rate proceeding. IPL's conservative approach to DAEC's refueling cycle will be adopted.

U. Alliant Energy Merger Benefits

During cross-examination, Consumer Advocate's witness testified that if the Board recognized a substantial amount of IPL’s proposed adjustments to increase rate base and increase expenses due to post-test year events, there should also be an adjustment for the merger savings promised by IPL in Docket No. SPU-96-6. (Tr. 799). However, Consumer Advocate did not fully develop the proposed adjustment and it is unclear whether some or all of the cost savings would have flowed automatically through the energy adjustment clause. (Tr. 895-96). There is insufficient evidence in the record for the Board to consider this adjustment.

VI. MISCELLANEOUS ISSUES

A. Energy Adjustment Clause

Consumer Advocate urged that the Board consider alternatives to address potential concerns with IPL’s energy adjustment clause (EAC). Because of expiring long-term contracts, Consumer Advocate stated there is a risk that IPL will enter into purchase power contracts with energy charge-only pricing structures, thereby effectively allowing IPL to recover capacity costs twice because capacity costs for contracts that expired in 2002 are included in the 2001 test year. Consumer Advocate further stated that this risk can be minimized through a temporary revision of the EAC mechanism until IPL’s new gas generating facility, Power Iowa Energy Center, comes on line. (Tr. 720, 726-28).

Consumer Advocate recommends that the EAC be temporarily revised to track levels of purchased power capacity costs monthly with adjustments to the amount of purchased power energy charges recovered in the EAC. If these EAC revisions were adopted, Consumer Advocate would accept IPL's proposed capacity cost adjustment. To the extent an expiring capacity contract was not replaced with a similar contract with the same capacity costs, any reduction in capacity costs would be credited against what IPL would otherwise recover through the EAC.

Concerns about the EAC were first raised in the last ARC proceeding for IPL's predecessor utilities, Interstate Power Company, Docket No. ARC-01-150 and IES Utilities Inc., Docket No. ARC-01-151. While the Board continues to be interested in pursuing potential alternatives or revisions to the EAC, the proposal advanced by Consumer Advocate is one-sided because it requires IPL to credit customers for reductions in capacity costs, but does not allow IPL to recover any increased capacity costs from customers through the EAC.

The Board will continue to monitor EAC costs and may propose revisions in a rule making proceeding. In addition, testimony in this case indicated that IPL may file another rate proceeding this year. (Tr. 496, 2562). In a subsequent rate proceeding, which would have a test year of 2002 or later, the Board can make appropriate adjustments to capacity costs to reflect any reductions in those costs from the replacement of expired contracts with new contracts. It is not appropriate to make adjustments at this juncture because they would be speculative.

B. Management Efficiency

Both Consumer Advocate and the ICC urged the Board to consider a downward adjustment to return on equity to reflect management efficiency. Iowa Code § 476.52 allows such an adjustment if a utility is "operating in an inefficient manner, or is not exercising ordinary, prudent management . . .."

The ICC also urged that a management efficiency penalty is appropriate because of changes to IPL's accounting system. IPL no longer maintains separate books of account for its different geographic pricing zones.

The evidence shows that IPL has taken steps to correct deficiencies in planning and procurement that were identified in the Board's April 8, 2002, order in Docket Nos. ARC-01-151 and ARC-01-152. (Tr. 738-42, 1164-65, 1167-69). The evidence does not demonstrate that IPL is operating in an inefficient manner or not exercising ordinary and prudent management. However, the evidence also does not show that IPL is operating in such a manner to justify a management efficiency reward. No adjustment to return on equity will be made, either up or down.

The failure to keep separate books of account for the different geographic pricing zones was implicitly approved by the Board and does not justify a penalty for management inefficiency. In Docket No. RPU-94-2, the Board accepted the filing by IES Utilities Inc. of a systemwide cost-of-service study for its entire Iowa service territory. Using such a study rendered the keeping of separate books for different geographic pricing zones unnecessary. A reasonable person would not expect such records to be continually maintained ten years after a merger.

VII. ACCOUNTING RULING

On April 15, 2002, and September 13, 2002, two predecessor utilities to IPL filed for a change of accounting method with the Internal Revenue Service (IRS). (Tr. 1848, 1852, 1854). The change in accounting method related to the allocation of mixed service costs between IPL's electric utility capital projects and electric inventory. The IRS allowed IPL to implement the change in accounting method for tax purposes prior to the change being reviewed by the IRS in an audit. If the IRS does not sustain the change in an audit, IPL is at risk for the payment of back taxes, penalties, and interest. Though IPL has asked the IRS to expedite examination of the changes in accounting method, the audit process may not be completed for several years. If sustained on audit, the accounting change results in significant acceleration of the recognition of tax benefits from production expenditures, thereby reducing IPL's overall tax liability.

In its request for an accounting ruling, IPL proposed that rates in this proceeding be set as if the accounting change had not occurred. This proposal was not contested and will be approved by the Board. The accounting change being implemented by IPL has significant risk. (Tr. 1856-58, 1915). IPL appears to be the first electric utility in the country to request such a change.

If the Board were to set rates based on the new accounting method, it would discourage utilities from aggressively pursuing potential changes in tax accounting methods that benefit both the utility and ratepayers. If the utility failed to sustain an audit when the IRS reviewed the new method, the utility could owe significant back taxes. These amounts would likely be unrecoverable from ratepayers because allowing recovery at that time could be found to constitute retroactive ratemaking.

A second part of IPL's request was also not contested. IPL proposed, if the new accounting method was sustained on audit, to refund to ratepayers 100 percent of the Iowa jurisdictional differences in federal and state income tax liabilities beginning with the 2001 test year. (Tr. 1857).

The only issue in IPL's request that is in dispute between IPL and Consumer Advocate relates to the cumulative (Consumer Advocate's term) or retroactive (IPL's term) savings associated with the change. These potential savings are for tax years 1987 through 2000 and resulted from the accounting change. Prior to the change in accounting method, IPL's predecessors capitalized mixed service costs, which are indirect administrative service costs allocated to utility-constructed assets such as transmission and distribution. The capitalized costs were recovered as depreciation expense charged over the book life of the applicable asset. The amount of the depreciation expense was a deduction on the utilities' annual tax returns.

With the new accounting method, mixed service costs related to generation are allocated to electric inventory and are expensed in the year incurred, allowing for immediate recovery. The total amount of the costs incurred, but not deducted during 1987 through 2000, is what Consumer Advocate calls cumulative savings and IPL calls retroactive savings. The total amount of additional expense deduction is approximately $82.3 million, which IPL deducted on its 2001 tax return. This had an impact of $34.2 million on IPL's 2001 taxes and is the amount of cumulative or retroactive savings at issue. Consumer Advocate contended all of this amount should be refunded. IPL argued only about $13 million should be returned to ratepayers.

IPL argued that because these potential savings relate to years prior to the tax year, it would be retroactive ratemaking to require any refund. Therefore, IPL believes its proposal to return only some of the money to ratepayers should be adopted.

Consumer Advocate takes a different view and calls the disputed amount a cumulative adjustment or savings. Consumer Advocate argued that the additional expense deduction taken in 2001 because of the change in accounting method represented expenses that, under the old method, would have been deducted as depreciation in 2001 and beyond, thereby reducing IPL's future tax liability and benefiting ratepayers. By accelerating tax deductions taken in 2001 with amounts that otherwise would have been deductions spread over future years, Consumer Advocate argued that IPL is engaging in retroactive and single issue ratemaking by proposing to keep the majority of the savings. (Consumer Advocate's Initial Brief, pp. 44-45).

The Board agrees with Consumer Advocate that the amount in dispute represents a cumulative adjustment or savings. The Board believes it has the authority to order a refund of all or part of this amount if the audit sustains IPL's new accounting method, and that this would not constitute prohibited retroactive or single-issue ratemaking. However, accounting rulings of the Board only give guidance on accounting issues and are not binding on a future Board for ratemaking purposes. Because the amount of the cumulative savings will not be known until after the audit process is complete, it is impossible for the Board to issue a binding ruling on the ratemaking treatment of the disputed $34.2 million. There are many options, including a refund of all or some of the money to ratepayers or use of the funds to offset fixed costs, like AFUDC, of the Power Iowa project (or some other project). That decision must be left to a future Board at the appropriate time, when the full costs of the accounting process are known, including any interest and penalties that may be due.

The Board's ruling on the accounting order request is relevant only to accounting procedures, not to the ratemaking treatment of the disputed amount. As noted earlier, IPL will be allowed to collect taxes under the previous method until the IRS audit process is completed. In order for the Board to rule on the final disposition of any cumulative savings when appropriate, IPL will be required to maintain records for ratemaking purposes as if the accounting change never occurred. The cumulative savings and any other amounts that IPL has collected, is collecting, or will collect in rates that represents the Iowa jurisdictional difference between the old and new method will be required to be maintained in an escrow account, and no disposition of funds can be made without Board authorization. As an alternative to requiring an escrow account, the Board will allow IPL the option of filing a bond or corporate undertaking agreeing to refund to ratepayers amounts, if any, finally determined by the Board to be appropriate.

VIII. CAPITAL STRUCTURE

A. Pro Forma Adjustments to Capital Structure

IPL proposed several adjustments to its test year capital structure for events that were expected to occur in 2002. Among the changes proposed was an approximately $150 million equity contribution to IPL and the retirement of up to $56.4 million of outstanding preferred securities. IPL said the changes were made in an attempt to create a capital structure that would help it maintain its long-term corporate credit rating of "A-" by Standard and Poor’s.

Consumer Advocate used the 13-month average test year capital structure and rejected IPL’s reflection of “anticipated” post-test year financing adjustments to its capital structure. Consumer Advocate also noted that there was no evidence that at least three of the 2002 changes had been completed or would ever be completed.

(Tr. 1693-95). Consumer Advocate also argued that use of the 13-month average capital structure is consistent with Board precedent.

The Board recognizes that because of changes that will be brought about by massive utility investments in Iowa's infrastructure, such as IPL's Power Iowa project, it may be time to revisit the Board's traditional use of the 13-month average test year capital structure. The Board invites arguments in the next rate case on whether changes are appropriate in the way the Board determines the capital structure. However, the Board has not been persuaded to abandon the use of the 13-month average capital structure in this case, in part because there is no evidence that most of the expected changes have actually occurred or will ever occur. In addition, the changes proposed to the capital structure were intended to shore up credit ratings, and the Board is not yet persuaded that such adjustments should be allowed when the cause of the lower credit ratings may be with non-regulated activities.
(Tr. 1994-95).

B. Double Leverage

IPL and MidAmerican presented lengthy arguments on why the Board should abandon its use of double leverage. Double leverage is the use of debt by both the parent company and the subsidiary, in combination with the parent's equity capital, to finance the assets of the subsidiary. Consumer Advocate presented arguments in support of the use of double leverage, noting in its initial brief at page 60 that "[t]he principle behind the double leverage adjustment is to account for the parent's accessibility to lower cost debt to purchase equity in its subsidiary, upon which it may earn a higher rate of return than it pays for the debt."

Consumer Advocate is correct that the idea behind the double leverage approach is to recognize the true capital structure at the subsidiary level and to prevent the parent company's stockholders from earning a "windfall." The Iowa Supreme Court has affirmed the Board's use of double leverage on at least two occasions. General Telephone Co. of the Midwest v. Iowa State Commerce Comm'n, 275 N.W.2d 364 (Iowa 1979); United Telephone Co. v. Iowa State Commerce Comm'n, 257 N.W.2d 466 (Iowa 1977).

The Board sees no reason on this record to disavow the application of double leverage in all instances. Double leverage is one regulatory tool to help protect the utility from abuse by its parent company. The Board understands the complex nature of these relationships and transactions and will not apply double leverage mechanically in each case, but rather will examine the particular facts and circumstances in each case where the adjustment is proposed.

The specific double leverage issue in this case is whether to apply double leverage to a $24 million debt issue. The debt issue originated in 1994, prior to the formation of Alliant Energy, IPL's parent. However, Alliant Energy infused common equity into IPL in September 2002.

The Board in Iowa Electric Light and Power Company Docket Nos. RPU-89-3 and RPU-89-9, found an exception to the application of double leverage. Iowa

Electric, a predecessor to IPL, claimed that the following four factors disproved the fact that double leverage should be applied to Iowa Electric. First, all of the utility's common equity as of June 30, 1986, had nothing to do with the formation of the holding company, which came into existence on July 1, 1986. Second, the holding company had sold only one fixed capital issue since its inception. Third, when the holding company was formed on July 1, 1986, all shares were sold to the utility's common shareholders through company stock plans and no new common stock had been sold since. Fourth, the only increase to common equity since inception had been through an increase in the utility's retained earnings.

Iowa Electric contended there was no connection between the creation of the holding company, IE Industries, and Iowa Electric's common equity since IE Industries has sold no new common stock since July 1, 1986, the date of the holding company's formation, and the only increase in Iowa Electric's common equity had been through an increase in retained earnings. In addition, money that Iowa Electric received from the sale of its subsidiaries went only to retire debt.

The Board found the use of double leveraging was not appropriate in calculating the capital structure for Iowa Electric because the facts warranted an exception. Iowa Electric demonstrated that IE Industries's debt does not result in an increase in Iowa Electric's common equity. The parent's debt was shown by the specific facts not to support the utility's capital structure. IES Utilities Inc., "Final Decision and Order," Docket No. RPU-89-3, (April 30, 1990), pp. 47-50.

In this case, the fourth factor justifying an exception to the application of double leverage is not present. While the $24 million debt issue in question was issued in 1994, prior to the formation of Alliant Energy, Alliant Energy infused equity into IPL in September 2002. Activity at the parent level, therefore, supports the utility's capital structure.

Application of double leverage in this case does not violate the matching principle. The Board is merely considering the fact that a post-test year equity infusion (September 2002) was made in determining that application of double leverage is appropriate. The recognition of this fact does not require a corresponding post-test year adjustment to capital structure. The Board applied double leverage based on facts similar to those present here in Docket No. RPU-91-9.

The Board recognizes that there may be appropriate exceptions to the application of double leverage other than one based on the four-factor test the Board has used. However, the evidence in this case is not persuasive for the application of a new exception.

C. Applying Double Leverage To Guaranteed Debt

Consumer Advocate in its double leverage adjustment not only included the $24 million debt issue but also included Alliant Resources's debt that is guaranteed by Alliant Energy. This is a non-traditional use of double leverage and is contrary to the premise that the parent issues debt in order to infuse equity into a utility subsidiary. (Tr. 1610, 1699-1700). Alliant Resources is the non-regulated subsidiary of Alliant Energy, IPL's parent. Alliant Resources's debt is kept separate from IPL and has not been used to infuse equity into IPL. Each company issues its own debt to fund its own operations. Consumer Advocate admitted that Alliant Energy cannot use the proceeds from Alliant Resources's debt issues. (Tr. 2099-2101).

While Alliant Energy has fully and unconditionally guaranteed Alliant Resources's debt, IPL is not responsible for paying the debt if there is a default and none of its assets were pledged as collateral for the debt. Alliant Energy can use any source of funds it has to pay the debt in the event of a default, such as dividends or the issuance of equity or debt. IPL noted that it has several restrictions on its bonds and equity ratios such that it is unlikely that IPL could be a significant source of money for Alliant Energy to repay the debt. (Tr. 1701-1701A). Even if Alliant Energy wanted to sell some or all of IPL's assets to pay the debt, Board approval would be required pursuant to Iowa's reorganization statutes, Iowa Code §§ 476.76 and 476.77. Most importantly, the proceeds from the debt were not used to invest in the common equity of IPL or any other subsidiary, so the underlying theory behind a double leverage adjustment is not present.

Consumer Advocate is commended for raising the issue because regulators need to be watchful of affiliate relationships that could harm the utility's financial standing. However, applying double leverage here would expand the double leverage theory beyond traditional application and result in a severe financial penalty to IPL that is not justified. Application of double leverage to the Alliant Resources's debt guaranteed by Alliant Energy will be denied.

IX. RETURN ON EQUITY

The Board was presented with a wide range of arguments and methods for determining the appropriate return on equity for IPL. The arguments were supported with voluminous testimony. Most of the testimony referred directly to the cost of equity for IPL, which must be determined to calculate its revenue requirement. Consumer Advocate, because it recognized double leverage, focused on the cost of equity for the parent Alliant Energy, whose weighted average cost of capital was then used as the cost of equity for IPL.

The primary recommendations on return on equity were as follows: IPL 12.25 percent; Consumer Advocate 9.6 percent; Ag Processing 11.1 percent; and the ICC 10.75 percent. (Tr. 953, 1066, 1489, 1549, 2110). The parties used various models in developing their recommendations, including discounted cash flow (DCF), risk premium, capital asset pricing (CAPM), and comparable earnings. There are variations on these models depending on the inputs used, such as dividend growth rate.

The determination of return on equity cannot be based on the rigid mechanical application of any particular formula, but must be based on the specific facts presented. In determining the return on equity, the Board has generally looked first at the results under the various DCF models. The DCF results range from 8.2 percent to 13.6 percent, varying due to differences in proxies and data inputs, especially growth. (Tr. 962, 1592).

Most of this wide variation is due to the analysis of Alliant Energy. The Board hesitates to give much weight to the analysis of this single company given its recent financial dynamics, the changing reviews by rating agencies, and these widely divergent results. The Board will ignore the 8.2 percent because it appears to be based upon single year growth forecasts, which may be excessively volatile. (Tr. 962). However, in an effort to give weight to both historical and longer-period forecasted growth rates, the Board will give some recognition to the 11.27 percent mean average of the other Alliant results (9.6 percent, 10.6 percent, and 13.6 percent). (Tr. 962, 1075, 1592).

As for the various DCF analyses of the proxy groups, results range from 9.4 percent to 12.0 percent. The results average about 11.2 percent for primary analysis done by IPL, the ICC, and Ag Processing (Tr. 962, 1592, 2118) and 10.9 percent if DCF analysis by Consumer Advocate and the ICC of others' proxies (Tr. 1104, 1107, 2129) is also considered. In looking at all the evidence, the Board finds that a reasonable DCF range is 10.9 to 11.3 percent. The Board continues to believe that DCF analysis should look at both historical and forecasted estimates for growth rates and continues to prefer the FERC DCF model for these purposes.

The Board uses a risk premium model to check or validate the DCF results. Using the Board's risk premium approach, which adds 250 to 450 points to the most recent yield of A rated utility bonds, the cost of equity range is 9.73 percent to 11.73 percent. (Tr. 1966). The Board notes that the mean average of the parties' recommendations in this proceeding is approximately 10.93 percent. This falls within the ranges produced by the DCF models and the Board's risk premium analysis.

After reviewing the various results produced by the different methods, the Board will adopt 11.15 percent as the cost of common equity. This is within both the DCF range and the Board's risk premium range. This figure is also validated by some of the other methods used by the parties. As the Board has noted on prior occasions, determining the appropriate return on equity is not an exact science and other persons looking at this record might reach a different conclusion. However, the return selected is well within the zone of reasonableness, based on the evidence presented.

The Board is not persuaded to make an upward adjustment to return on equity because IPL is a "small" business, as IPL urged. Based on the testimony, the Board is concerned the proxy companies used by IPL in determining cost of equity may be more risky than IPL, offsetting any need for an adjustment due to size. (Tr. 962-63, 990-91, 1093, 2136-38, 2145-47, 2225-27). Because the various models consider so many factors, it is difficult to isolate any one item, such as size, and make that the basis for an additional adjustment.

The Board is also not persuaded to make a downward adjustment, as proposed by Lee County, because of lower risk to IPL due to the availability of advanced ratemaking principles for certain generating plants pursuant to Iowa Code § 476.53. IPL has received advanced ratemaking treatment for one plant, Power

Iowa, but the plant is not in service and, therefore, not in IPL's rate base. Because the plant is not now in rate base, the issue is not ripe for consideration.

X. COST OF SERVICE

A. Introduction

In considering the class cost-of-service study and the objections or proposed modifications to the study, the Board notes that designing a class cost-of-service study involves numerous decisions regarding methodologies and cost allocations and the exercise of informed judgment. The Board's review is guided by what is a reasonable methodology or allocation rather than by what is the "correct" method or allocation. Because cost-of-service design is not an exact science, there is not a single "correct" method or allocation.

While in certain instances there are other factors that must be taken into account, the Board generally embraces the principle of cost-based rates. That is, each customer class should pay its portion of costs as allocated by the cost-of-service study. Cost-based rates send the correct price signals to consumers and reduce any potential for cross-class subsidization. However, other factors, such as mitigating rate shock associated with large, sudden rate changes, may also be considered in determining reasonable application of the class cost-of-service study, particularly when there are substantial price differences among customers in the same class based solely upon the pricing zone they are located in.

B. Overview of Class Cost-of-Service Methods and Results

IPL's class cost-of-service study generally follows the same cost allocation methods accepted by the Board in the last IES Utilities Inc. rate case, Docket No. RPU-94-2. Transmission costs are allocated by the average and excess (A&E) method and distribution costs are allocated according to class non-coincident peak demands. Customer costs, including line transformers, service lines, meters, meter reading, billing, and other customer service costs, are allocated according to the number of customers. General plant and administrative and general expenses are allocated according to a composite of either net plant or functional labor costs. Energy-related costs are allocated by IPL in a manner that produces a result essentially the same as the allocation based on class energy usage that was used in Docket No. RPU-94-2. Because the results are almost identical, IPL's proposed allocation will be used here.

IPL has proposed one significant change, however, from the methodology used in Docket No. RPU-94-2. IPL advocates using a new method for allocating generation capacity costs, developed by one of its witnesses. This method consists of a peak load capacity dispatch model for allocating capacity-related costs. In Docket No. RPU-94-2, IES Utilities Inc. allocated generation capacity costs according to the A&E method.

Consumer Advocate generally supported IPL's proposed method for allocating generation capacity, but proposed several other minor adjustments to IPL's class cost-of-service methods. MidAmerican recommended modification of IPL's generation capacity allocation method to be more consistent with the hourly cost assignments used for energy. MidAmerican proposed no specific adjustments (Tr. 3118), but in general such modifications shift additional costs from residential and general service classes to large general service and bulk power classes, similar to an energy-based allocation. (Tr. 3096-98).

The CCRF opposed IPL's proposed alternative method for allocating generation capacity and instead proposed allocating generation capacity based on the A&E method, with interruptible and lighting class loads excluded from excess demand. The ICC's position is similar, except the ICC would include interruptible and lighting loads in the A&E excess demand component. Maytag and Tyson also opposed IPL's proposed alternative method for allocating generating capacity, proposing an allocation based on class contributions to IPL's system coincident peak (1CP). If the Board does not adopt the 1CP method, Tyson and Maytag favor the allocations proposed by the CCRF.

C. IPL's Alternative Method

Generation cost allocation is typically the class cost-of-service issue with the largest potential rate impact. All of the proposed methods and variations, except the 1CP method, reflect peak demand responsibility, peak and off-peak usage, and load diversity. The Board has historically rejected the 1CP method and will do so in this case, because it does not reflect the fact that generation capacity is designed to serve both peak and off-peak demand, as required by 199 IAC 20.10(2)"c." The A&E

method does not share this shortcoming because, among other things, allocation is based partly on average demand, which reflects both peak and off-peak usage. The Board has consistently used the A&E method for allocating generation capacity costs.

In this proceeding, IPL proposed to use an alternative cost method to allocate generation capacity costs. IPL's alternative cost method seeks to recognize differences among generating units and the different segments of load they serve. Much of the rationale for switching to methods that assign generation plant to the specific loads they serve seems to be in preparation for changes anticipated as a result of FERC's proposed standard market design (SMD) rulemaking. (Tr. 2349-50, 3133-34). However, it is not certain whether SMD will be adopted or, if it is, what form it will take. (Tr. 2363-65, 2373-76).

The Board is concerned that IPL's alternative methods may be sensitive to the type and timing of generating plant additions. Because of this sensitivity, results over time may tend to be less stable. There are also concerns about the data-intensive, "black box" nature of the alternative method, making it more difficult to determine or test the impact of key assumptions. For example, including interruptible and lighting loads in IPL's alternative method produces class cost-of-service results that more closely resemble an energy-based allocation, shifting significant costs from Residential and General Service to Large General Service. (Late-filed Exhibit 30). MidAmerican's proposed modifications to IPL's method would also more closely resemble energy-based allocations. (Tr. 3098). Allocations of demand-related generation costs that more closely resemble energy-based cost allocations may be inappropriate because not enough weight is given to peak demand.

While IPL's method, unadjusted for interruptible and lighting loads, may produce results that appear reasonable in this case, there are sufficient concerns with the ongoing stability and validity of this method that the Board will continue to use for this proceeding the A&E method to allocate generation capacity costs. Comments on IPL's alternative method or other methods are invited in IPL's next rate proceeding.

D. Allocation of Generation to Interruptible and Lighting

The A&E method for generation allocation adopted by the Board for this proceeding includes lighting loads, by definition. Lighting loads are automatically part of the "average" demand component and also included in the non-coincident peak "excess" component.

Several parties offered comments on whether interruptible load should be included in the development of the A&E generation cost allocator. The Board continues to believe it is reasonable to include interruptible load in allocating demand costs because this recognizes that a utility builds its generation plant to serve all loads, not just firm peak load. See, IES Utilities Inc., "Final Decision and Order," Docket No. RPU-94-2 (May 12, 1995), pp. 27-28.

Interruptible discounts will be credited and allocated as proposed by the ICC. Because the A&E method allocates costs to interruptible load as though it was firm, it is appropriate to credit interruptible discount revenues to the Large General Service class and allocate the cost of those discounts to all customer classes according to the A&E method. Doing this serves as the basis for moving interruptible costs out of class base rates on a dollar-for-dollar basis and into the Energy Efficiency Cost Recovery Factor, discussed in the Rate Design section of this order.

E. Other Cost Allocation Issues

Consumer Advocate raised seven additional issues regarding detailed adjustment to IPL's allocation methods. One, related to Account 557, was uncontested and will be adopted. The others will be rejected.

The first proposed adjustment related to fixed generation operation and maintenance expenses and increased the "average" demand component of A&E demand and decreased the "excess" demand component. However, for consistency purposes, these expenses should be allocated by the same A&E method, as was generation. Two other proposed adjustments would use energy-allocation methods for Account 556 Dispatch expenses and wheeling and Account 561 Transmission dispatch. All of these are fixed costs that do not vary by energy usage, making an energy allocator inappropriate. (Tr. 3462-63).

The other proposed adjustments, to distribution operation and maintenance expenses, administrative and general expenses, and rental revenues, add needless complexity to the study with little impact on final allocations. (Tr. 3464-65). The Board continues to believe this level of precision is unnecessary. See, IES Utilities Inc., "Final Decision and Order," Docket No. RPU-94-2 (May 12, 1995), pp. 32-33.

XI. RATE DESIGN

A. Making Green Power Available to All Customer Classes

IPL opposed the CCRF's proposal to extend IPL's existing optional residential energy option, the Second Nature pilot program, to all customers. IPL said it is currently developing programs to expand renewable energy to more customer classes, consistent with applicable Iowa standards, but that the issues should be addressed in a separate tariff filing. (Tr. 2412).

The Board commends IPL for developing its Second Nature residential pilot program prior to any state mandates for such a program. Recently-enacted legislation, Iowa Code § 476.47, requires utilities to offer alternate energy purchase programs to customers beginning January 1, 2004. IPL is subject to this legislation and the Board will not order any changes to IPL's existing optional pilot program in this docket. IPL should be allowed time to evaluate its pilot project as it develops its programs for compliance with section 476.47. These programs will be subject to review and comment in a separate tariff filing.

B. Day-Ahead Time-of-Use Tariff

IPL proposed an optional rate pilot program designed to provide Large General Service customers with known, hourly pricing schedules on a day-ahead basis. The rate structure is designed to send strong price signals to move usage from the high-cost hours. IPL is asking for a pilot program to resolve technical uncertainties, such as the availability of cost effective and reliable metering and communication equipment and to gain experience with an hourly pricing system. (Tr. 2284-85).

None of the parties opposed this optional program. The CCRF suggested the energy costs used in designing the energy portion of the hourly rates be updated, from calendar year 2001 to the most recent 12 months available, with a review of the energy costs annually thereafter. (Tr. 3076-77). IPL agreed that the energy cost portion could be updated. (Tr. 2368-71). The Board will approve the pilot, but will require IPL to update its "EAC Transfer Prices," in Exhibit 27, Schedule C, based on 2002 energy costs and to file annual pilot project status reports. Also, because of potential issues regarding whether the establishment of separate unbundled rates for transmission and distribution for the pilot project might subject IPL's bundled retail transmission to FERC pricing authority, the Board will require IPL to reconfigure the pilot tariff as bundled hourly rates.

C. Separate Cost Recovery Rider for Emissions

IPL proposed to create a separate cost-recovery rider for recovering emissions control expenditures made pursuant to Iowa Code § 476.6(25). Costs approved by the Board would be allocated to each class according to the generation cost allocator approved in IPL's class cost-of-service study. A kWh charge would then be calculated for each class and reconciled annually based on actual revenue collections expenditures. Consumer Advocate, the CCRF, and the ICC opposed a separate rider for recovery of these costs.

Iowa Code § 476.6(25) allows for rate recovery of emissions control costs, but does not mandate use of an automatic adjustment rider. As noted by Consumer Advocate, these types of costs have historically been recovered in base rates, which are adjusted in a rate case proceeding. IPL has not demonstrated that the costs are sufficiently volatile, large, or beyond its control such that an automatic rider would be justified. In fact, section 476.6(25), which allows for recovery of emissions expenditures prior to imposition of federally-mandated controls, should provide some insulation from cost volatility. The separate rider will be denied. IPL may seek recovery of these costs in a rate proceeding.

D. Customer Charge Levels

Consumer Advocate proposed to reduce IPL's customer charges to levels that IPL contended were below costs as shown by the class cost-of-service study, inappropriately shifting customer costs to kWh usage rates. Ag Processing and the CCRF also opposed Consumer Advocate's proposal, arguing that there should not be movement away from the goal of cost-based rates.

The Board will adopt the changes to customer charges as proposed by IPL. Consumer Advocate's changes would create uniform systemwide residential and general service customer charges. Given the magnitude of changes required for rate equalization and rate structure consolidation, IPL has proposed to make no rate structure changes in this case. Instead, IPL proposed to adjust the non-EAC, non-EECR rate elements in each rate code by uniform percentages. (Tr. 2393-95). IPL's approach, which makes overall class revenue realignments and not rate design changes, is reasonable.

Without further study of the customer cost classification approach suggested by Consumer Advocate, the Board is concerned that its application would be a move away from the goal of cost-based rates. Additionally, Consumer Advocate's uniform customer charge approach is more appropriately addressed in a proceeding where rate structure consolidation among the four pricing zones is one of the primary issues addressed by the parties.

E. Expanding Availability of Bulk Power Rates

The CCRF wants to extend IPC Bulk Power Service to other rate zones and lower the minimum demand and load factor eligibility criteria. IPL opposed the change because there would be significant revenue losses for IPL that could not be recovered until its next rate case. The ICC also opposed the change, saying that the CCRF provided no cost support for the changes.

IPC Bulk Power Service is currently a separate class in IPL's class cost-of-service study, consisting of two very large customers. Changing its eligibility requirements could potentially change the class composition and, later, its allocated costs. Without further study of the potential customers involved if the criteria were expanded, it is not clear whether a change is warranted or whether Bulk Power usage characteristics are such that it should remain a separate and unique class. There is insufficient information to order a change in this proceeding.

F. Moving the Cost of Interruptible Service

IPL proposed to change the method of cost recovery for interruptible service discounts. Currently, these are recovered in base rates. IPL wants to recover these costs in its energy efficiency cost recovery (EECR) rider, with the cost of the discounts allocated to customer classes in the same manner as the class cost-of-service study. IPL maintained this would allow for review of the interruptible program in the same manner as other energy efficiency programs, with any resulting program changes tracked through the EECR rider. IPL noted the purpose of the financial incentive provided to interruptible customers is similar to that provided to residential customers who participate in direct load control, that is, to reduce peak demand, and that those costs are recovered through the EECR rider.

The CCRF, the ICC, and Ag Processing opposed the change. The CCRF maintains interruptibility is not an energy efficiency issue because interruptible customers may use backup supply sources that exceed their interruptions. The CCRF believes the main purpose of the proposed shift is to enable IPL to show an increase in its energy efficiency plan expenditures.

Recovery of interruptible costs through the EECR rider would place IPL in the same position as MidAmerican with respect to where those costs are recovered. This will enable policy makers to make more meaningful comparisons of the two utilities' energy efficiency programs. While there is some debate as to whether interruptible programs are really energy efficiency programs, they have been included in energy efficiency program plan filings in Iowa for some time and it is reasonable that the costs be recovered through the EECR mechanism.

Contrary to the ICC's assertion, the initial shift in recovery should be seamless and would entail no changes in rate design. In other words, a customer who now pays $1 in base rates for interruptible program costs will have that charge removed and pay $1 through the EECR, subject to any changes in allocations as a result of the class cost-of-service study approved in this proceeding. These changes in allocations impact the amount a customer pays regardless of whether it is through base rates or the EECR rider. However, because IPL only proposed the concept of the change in this docket, and not the actual change itself, the Board will approve the concept of the transfer from base rates to the EECR rider, but require a separate filing to accomplish this transfer at the conclusion of this case. The filing should be based on how the cost of interruptible discounts is allocated among customer classes in the class cost-of-service study approved in this proceeding.

G. Miscellaneous Changes

Several uncontested rate design changes will be adopted. These relate to revising eligibility for certain rate codes, non-recurring charges for posting and reconnection, increasing primary service discounts for 34.5 kV service under certain circumstances, and miscellaneous changes in rules and regulations for uniformity. (Tr. 50, 56-58, 2416-17). The Board will also approve IPL's proposal to freeze the availability of service under certain end-use rate codes. (Tr. 49). The Board will not eliminate these rate codes completely, as proposed by the CCRF, because the potential rate impacts are not known.

In addition, as alluded to in the discussion regarding customer charge levels, the Board will not adopt the CCRF's suggestion to consolidate IPL's rate structure. The record was not adequately developed to impose a change of such magnitude at the same time rates between the various pricing zones are beginning to be consolidated. (Tr. 2413-14).

XII. RATE EQUALIZATION

A. Concept of Rate Equalization

The parties presented various arguments on the theoretical arguments supporting and opposing the concept of rate equalization. IPL noted that, pursuant to 199 IAC 20.10(2)"a," all usage of a customer is considered to be new usage, meaning that costs are allocated to utility customers equally, without vintaging, based on customers' usage characteristics rather than their history. IPL argued it was neither necessary nor feasible to conduct separate class cost-of-service studies for each pricing zone, as some witnesses suggested. The former Iowa Electric and Iowa Southern pricing zones have been operated as a single integrated system since the 1993 merger. Since that time, there has been significant growth and new investment. Trying to "undo" the merger now based on pre-merger history would require the use of many arbitrary assumptions and would produce results of little value, according to IPL.

Consumer Advocate agreed that IPL is operated as an integrated electric system and that rates across pricing zones should eventually be equalized. Consumer Advocate argued that it is inequitable for similarly-situated customers with similar cost characteristics to continue paying different rates in perpetuity because they happen to live in different pricing zones. Consumer Advocate cited Iowa Code § 476.5, which provides that no utility “shall make or grant any unreasonable preferences or advantages as to rates or services to any person or subject any person to any unreasonable prejudice or disadvantage.”

The CCRF stated that there was no cost basis for the rate differentials among the four pricing zones. IPL is operated as an integrated system and all customers pay the same energy costs through IPL’s EAC. The CCRF argued that 199 IAC 20.10(2)"a" means that customers in a particular rate zone should be given no prior or continuing claim to the benefits and costs of particular facilities. The CCRF noted it was futile and progressively burdensome to attempt to track costs associated with particular geographic areas, due to ever-changing customer composition, usage levels, and facility investments. In approving the various mergers, the Board never established conditions for distributing merger benefits by rate zone or a merger benefits test for setting rates.

The ICC claimed there was no justification or evidence to support rate equalization and that the mergers provide no benefit for low-cost utility customers if the merger causes them significant rate increases that outweigh their merger benefits. The ICC argued that there was no evidence showing what the rates in the different zones would have been absent the merger. The ICC attempted to show that there were cost differences among the various zones because the costs associated with generating plants owned by the predecessor utilities were different.

Ag Processing also argued that there were cost differentials among the four rate zones. Ag Processing claimed that costs can differ geographically due to differences in distance and customer density. The Cities also said there was no basis for rate equalization and that the current zonal rate differences are based on the merger of utilities that had cost differences.

Maytag and Tyson are concerned about the economic impacts of any rate equalization proposal that may be implemented. Lakeside Casino argued that rate equalization should occur naturally based on changes to the cost of service. Lakeside Casino argued that the mergers did not immediately equalize the costs of providing service.

The arguments over the concept of rate equalization focused on inter-generational equity and the question of whether IPL should be regarded as a single integrated system or a collection of four independent systems. Paragraph 199 IAC 20.10(2)"a," which provides that all usage of customer, demand, and energy components of service shall be considered new usage, is designed, in part, to ensure that no customer receives or expects any right or entitlement to currently existing facilities and that all customers pay their appropriate share of the utility’s cost.

Paragraph 199 IAC 20.10(2)"b" provides that customer classes shall be established on the primary basis of reasonably similar usage patterns within classes, even if this requires disaggregation or recombination of traditional customer classes. This rule simply recognizes that the purpose of having customer classes is to group together customers with reasonably similar usage patterns because those customers cause the utility to incur costs in a similar way. See Docket No. RMU-80-1, "Order Adopting Rules" (July 6, 1981). An inherent assumption in both paragraphs 20.10(2)"a" and "b" is that the utility's system operates as an integrated whole, rather than as a collection of sub-systems.

The view that equalization is never appropriate or should occur "naturally" as post-merger investment gradually replaces pre-merger investment is not persuasive. (Tr. 3278-86, 3289-3301). This is one company, with one set of costs, and it should be moving toward one set of rates. In any event, for the old Iowa Southern pricing zone, there have been no post-merger price increases, so in effect those customers have already received at least some of the benefits that Ag Processing, the ICC, and some other intervenors argued those customers should receive. IPL is one system and it is time to move forward with the process of rate equalization.

The Board's interpretation of its rules treats merged utilities' customers consistently with new customers. For example, a new industrial customer does not pay a higher rate simply because it was not in business when the vast majority of the utility's system was constructed. New and old customers in the class pay the same rate, even though, based on the theories espoused by some of the parties, an argument could be made that the old customers should receive the benefit of the older, cheaper facilities because they were customers when those facilities were built. The new customers in turn would pay for the new, more expensive facilities. This argument is not compelling. Old and new customers alike benefit from all the utility's resources and pay their proportionate share of the costs. Customers in each pricing zone likewise benefit from all the utility's resources and should pay their proportionate share of costs.

B. Rate Equalization Proposals

The proposals for rate zone equalization and class rate consolidation range from immediate (CCRF) to an estimated period of 10 to 15 years (Ag Processing). (Tr. 3288). The CCRF's immediate equalization proposal used the southern zone rate design, but provided no recent support or analysis that takes into account usage patterns in the old Interstate Power pricing zone and no analysis of customer rate impacts.

If rates were equalized immediately based on the class cost-of-service study approved in this proceeding, the results would be dramatic. Residential customers in the old Iowa Southern territory, IES-S, would experience a total increase of almost 57 percent and an average total monthly bill increase of over $30. IES-S Large General Service customers would experience total increases approaching 20 percent. Increases for other customer classes in some of the pricing zones, particularly for Lighting customers, would also be substantial. A schedule showing what full equalization would mean in this proceeding based on unadjusted class cost-of-service study results is attached as Schedule H. Increases of this magnitude would almost certainly have adverse effects on these customers, far beyond the normal effects one might expect from a typical electric utility rate case. It is unreasonable to require full equalization in this proceeding because of the dramatic impact on rates for some classes in some pricing zones.

IPL proposed a phase-in period of five years from the conclusion of this case for full equalization, with maximum annual class zone increases limited to 15 percent. Consumer Advocate also recommended a phase-in period. Both IPL and Consumer Advocate proposed making continued progress through annual revenue-neutral equalization filings.

Given the uncertainty over possible future IPL proposed rate increases, any schedule for equalization beyond the present case is speculative. Therefore, the Board will set rates for this proceeding only and will not adopt a specific phase-in approach at this time. However, the Board intends to continue moving towards rate equalization in future IPL rate filings. If those filings do not materialize, the Board may direct IPL to file revenue-neutral equalization proposals on a regular basis.

After reviewing all the evidence presented on rate equalization, the Board believes it is reasonable to generally change class revenues in a manner that is guided by the class cost-of-service study approved in this proceeding, but the Board will not fully implement that study in this docket. Because the Board's decision in temporary rates represented the first step toward zonal rate equalization, none of the temporary rate increases will be reduced.

While class revenue changes will generally be guided by the class cost-of-service study, the Board will make some class rate change limitations and adjustments. These limitations and adjustments are made in the interest of making progress toward zonal rate equalization while mitigating individual rate impacts. The adjustments and limitations the Board will make are as follows:

Lighting. Current temporary Lighting rate revenues in all pricing zones will be increased by a uniform percentage, such that the overall rate revenue increase for IES-S Lighting, including the temporary increase, does not exceed 15 percent. The remainder of the required Lighting increase will be spread across other customer classes on a uniform percentage basis.

Bulk Power. Current temporary Bulk Power rates will remain unchanged.

Large General Service (LGS). Overall LGS class rate revenues will be changed according to the class cost-of-service study approved in this proceeding plus the LGS share of the Lighting remainder. In the IPC zone, LGS rates will be increased such that the IPC LGS rate revenues per kWh equal class average LGS rate revenues per kWh. In the IES-S zone, the current temporary LGS rates will be increased such that the overall rate revenue increase for IES-S LGS, including the temporary increase, does not exceed 9 percent. Any remaining change in LGS class revenues will be reflected in the IES-N LGS rates.

General Service (GS). In the IES-N zone, GS rate revenues will be reduced by 5 percent. In the IPC zone, “Other Public Authority” GS rates will be increased such that the overall rate revenue increase, including the temporary increase, does not exceed 8 percent. All other current temporary GS rates will remain unchanged.

Farm. Current temporary Farm rates will remain unchanged.

Residential. In the IES-S zone, current temporary Residential rate revenues will be increased by 8 percent. In the IPC zone, Residential rates will be increased such that the overall rate revenue increase, including the temporary increase, does not exceed 9 percent. Any remaining change in total IPL rate revenues will be reflected in the IES-N Residential rates.

The Board believes the adjustments it has made are reasonable and represent an appropriate balancing of the interests of customers in all zones. From the rates adopted, it is apparent that the Other Public Authority rates in the IPC zone are still significantly below the average for the General Service class and that a significant increase for those rates is likely in the next proceeding. A schedule showing the estimated class zone revenue increases adopted in this proceeding is attached to this order as Schedule G.

C. Separate IES-N Nuclear Rider

Ag Processing argued that if the DAEC nuclear decommissioning fund has been underfunded, then IES-N customers should make up the deficit since they received most of the plant’s benefits. This proposal will be denied. The arguments the Board has cited supporting rate equalization also support opposition to the use of a separate rider that applies to one price zone. In addition, if DAEC's license is extended, the arguments used by Ag Processing largely disappear.

XIII. FINDINGS OF FACT

Based on a thorough review of the entire record in these proceedings, the Board makes the following findings of fact:

1. It is reasonable to allow IPL's adjustments to the enterprise resource planning project and provide for an amortization period of three years for one-time expenses and five years for ongoing expenses.

2. It is reasonable to allow an adjustment to reflect the costs of a new computer information system placed in service in June 2002.

3. It is reasonable to allow adjustments for major plant additions that were in-service by the end of test year 2001 and to allow depreciation on those additions to be calculated at 50 percent.

4. It is reasonable to allow an adjustment of $4,666,537 to rate base for combustion initiative expenditures made on or before April 30, 2002, and to allow ten-year straight-line depreciation.

5. It is reasonable to allow the adjustments proposed by Consumer Advocate for the vehicle replacement program and deny additional adjustments proposed by IPL for expenditures incurred after March 29, 2002, because no corresponding adjustment for cost savings was made.

6. It is reasonable to adjust rate base by $1,736,657 to recognize a new distribution plant that was in-service as of May 1, 2002.

7. It is reasonable to allow recovery of FERC Account 182 deferrals in the amount of $11,024,241, amortized over four years, but it is unreasonable to allow IPL to earn a return on the balance.

8. It is reasonable to allow IPL's proposed adjustments for postage, salaries and wage increase, firm wheeling expense, employee benefits, IT infrastructure costs, electric system maintenance, and decreased purchased power sales.

9. It is reasonable to allow the costs determined by an actuary, $1,768,724, for post-employment benefits other than pensions.

10. It is reasonable to allow recovery for use tax audit expense with a three-year amortization period.

11. It is reasonable to adjust test year expenses by $906,823 to levelize transmission and distribution maintenance expense for overhead lines.

12. It is reasonable to adjust test year expenses by $268,897 to allow recovery of expenses associated with the CEIDS project, but to require IPL to annually provide information that payment was actually made.

13. It is unreasonable to allow IPL's proposed adjustment for line clearance to a four-year cycle because the costs associated with the program are not known and measurable.

14. It is unreasonable to adjust test year expenses to reflect a possible discontinuance of nuclear insurance premium refunds.

15. An adjustment to electric system maintenance initiatives, calculated by Consumer Advocate and accepted by IPL, is reasonable.

16. It is unreasonable to allow recovery in all rates of the costs of the farm rewiring program.

17. It is unreasonable to include in test year expenses any amounts associated with the MICP/EICP awards.

18. It is reasonable to allow IPL's proposed adjustment for loss of margins from four wholesale customers, including the CCRF's proposed adjustment for transmission revenues.

19. It is reasonable to allow a net lost margin adjustment of $824,601 for significant load changes by 17 large customers.

20. It is reasonable to allow an adjustment reflecting the movement of IPC farm customers to the lower Large Power and Lighting rate.

21. Consumer Advocate's proposed adjustment for Red Cedar expense is reasonable.

22. It is reasonable to include a contingency factor of approximately 17 percent in nuclear decommissioning costs estimates, include three years of inflation in the cost estimate, use an inflation rate of 2.7 percent, and not make an

assumption in developing the estimate that Duane Arnold Energy Center will be retired in 2014.

23. It is reasonable to allow 75 percent of IPL's proposed adjustment for cost increases related to the Nuclear Management Company.

24. It is reasonable to use the updated 2002 amount, rather than a three-year average, to determine a representative level of pension expense.

25. It is reasonable to allow IPL's adjustment to test year revenues to reflect costs associated with financing receivables as a result of the 2000-2001 heating costs.

26. It is reasonable to include net salvage in the calculation of depreciation rates.

27. It is reasonable to calculate property taxes consistent with IPL's recent gas rate case filing.

28. IPL's proposed refueling cycle for Duane Arnold Energy Center is reasonable.

29. It is unreasonable to make any adjustment associated with merger savings.

30. It is unreasonable to make any adjustment to return on equity for management efficiency or inefficiency.

31. It is unreasonable to modify IPL's energy adjustment clause in this proceeding.

32. It is reasonable to set rates in this proceeding as if the accounting change related to mixed service costs had not occurred.

33. It is reasonable to require IPL to refund to ratepayers, if the new accounting method is sustained, 100 percent of the Iowa jurisdictional differences in federal and state income tax liabilities beginning with the 2001 test year.

34. It is reasonable to require IPL to maintain records for ratemaking purposes as if the accounting changes never occurred.

35. It is reasonable to use the 13-month average test year capital structure.

36. It is reasonable to apply double leverage to $24 million of Alliant Energy debt.

37. It is unreasonable to apply double leverage to Alliant Resources's debt that is guaranteed by Alliant Energy.

38. It is reasonable to set the return on common equity at 11.15 percent.

39. It is reasonable to use the average and excess method for allocating generation and transmission demand costs, including interruptible and lighting loads in development of the allocation factor, and to allocate other costs as proposed in IPL's class cost-of-service study. It is also reasonable to allow Consumer Advocate's uncontested adjustment to the allocation of Account 557, but to reject other minor adjustments.

40. It is reasonable to credit interruptible discounts to the Large General Service class and to allocate the corresponding cost of the discounts to all customer classes based on the average and excess method.

41. It is unreasonable in this proceeding to require IPL to extend its Second Nature pilot program to all customer classes.

42. It is reasonable to approve IPL's optional day-ahead time-of-use tariff, but to require that energy costs be updated as provided in the body of this order and to reconfigure the pilot tariff as bundled hourly rates.

43. It is unreasonable to approve a separate cost recovery rider for emissions control expenditures.

44. IPL's proposed customer charge levels are reasonable.

45. It is unreasonable to expand the availability of bulk power rates in this proceeding.

46. It is reasonable to allow the transfer from base rates to the EECR rider of the costs associated with interruptible service discounts, but to require a separate tariff filing to accomplish this transfer at the conclusion of this proceeding, based on how the cost of interruptible discounts is allocated among customer classes in the class cost-of-service study approved in this proceeding.

47. It is reasonable to adopt IPL's uncontested changes to rate design and freeze the availability of service under certain end-use rate codes.

48. It is unreasonable to consolidate IPL's rate structures in this proceeding.

49. It is reasonable to adjust non-EAC, non-EECR rate elements in each rate code by uniform percentages, as proposed by IPL.

50. It is unreasonable to adopt a specific phase-in approach for rate equalization in this proceeding.

51. It is reasonable to generally change class revenues in a manner that is guided by the class cost-of-service study approved in this proceeding, but not to fully implement the study because it is reasonable to mitigate the impacts of some of the increases that would result.

52. It is unreasonable to adopt a separate nuclear cost recovery rider for one pricing zone.

XIV. CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code ch. 476 (2003).

XV. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The proposed tariffs filed by Interstate Light and Power Company on March 29, 2002, identified as TF-02-127 and TF-02-128, and made subject to

investigation in this proceeding, are declared to be unjust, unreasonable, and unlawful.

2. On or before the expiration of 15 days from the date of this order, IPL shall file a revised cost allocation study, a revised class cost-of-service study, and revised tariffs setting schedules of electric rates in compliance with the findings of this order and attached schedules A through F. Schedules A through F are incorporated into this order by reference. The compliance tariffs shall become effective upon approval by the Board.

3. IPL shall file, on an annual basis, information demonstrating that the annual payment for the CEIDS research project has been made and shall also provide to the Board and Consumer Advocate on a timely basis copies of all research reports that may be issued.

4. With respect to the change in accounting method related to the allocation of mixed service costs, IPL shall maintain records for ratemaking purposes as if the accounting change never occurred. IPL shall also deposit the cumulative savings and any other amounts that it has collected, is collecting, or will collect in rates that represents the Iowa jurisdictional differences between the old and new method in an escrow account or, in the alternative, file a bond or corporate undertaking agreeing to refund to ratepayers amounts, if any, finally determined by the Board to be appropriate.

5. IPL shall file a separate tariff to transfer the costs of the interruptible service program currently in base rates to the EECR rider. The tariff shall be effective upon approval by the Board.

6. Motions and objections not previously granted or sustained are denied or overruled. Any argument in the briefs not specifically addressed in this order is rejected either as not supported by the evidence or as not being of sufficient persuasiveness to warrant comments.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 15th day of April, 2003.

SCHEDULE A

Interstate Power and Light
Revenue Requirement
Test Year Ended December 31, 2001

Line No.	Description (A)	Amount (B)
1	Rate Base	$ 1,394,206,872
2	Rate of Return	9.0790%
3	Return On Rate Base	$ 126,580,042
4	2001 Net Operating Income	$ 111,287,768
5	Income (Excess) Deficiency	$ 15,292,274
6	Tax Effect	$ 10,879,682
7	Revenue (Excess) Deficiency	$ 26,171,956
8	Operating Revenue	$ 888,626,180
9	Percent Increase/Decrease	2.95%
10	REVENUE REQUIREMENT	$ 914,798,136

Interstate Power and Light
Rate Base
Test Year Ended December 31, 2001

Line No.	Description (A)	13 Month Ave. Balance (B)	Adjustments (C)	Total (D)
1	Plant in Service	$ 3,056,030,059	$ 92,068,139	$ 3,148,098,198
2	Accumulated Depreciation	$ (1,559,391,092)	$ (3,702,847)	$ (1,563,093,939)
3	Deferred Taxes	$ (192,336,381)	$ 1,598,610	$ (190,737,771)
	Customer Advances	$ (1,474,445)		$ (1,474,445)
4	Customer Deposits	$ (1,757,444)	$ (43,854)	$ (1,801,298)
5	Unclaimed Property	$ (23,792)	$ (1,151)	$ (24,943)
6	Uncollectibles	$ (578,159)	$ 9,259	$ (568,900)
7	Property Ins., Workers Comp.	$ (3,409,074)	$ 1,742	$ (3,407,332)
8	Accrued Vacation	$ (3,694,995)	$ 93,175	$ (3,601,820)
9	Accrued Pensions	$ (3,175,816)	$ (3,615)	$ (3,179,431)
	Total Net Plant	$ 1,290,188,861	$ 90,019,458	$ 1,380,208,319
13	Working Capital			
14	Materials and Supplies	$ 25,800,064	$ (4,052,486)	$ 21,747,578
15	Prepayments	$ 3,235,064	$ (23,373)	$ 3,211,691
16	Fuel Inventory	$ 23,269,182	$ 1,861,483	$ 25,130,665
17	Cash Working Capital	$ (35,541,126)	$ (550,255)	$ (36,091,381)
18	Total Net Working Capital	$ 16,763,184	$ (2,764,631)	$ 13,998,553
19				$ -
20	Total Rate Base	$ 1,306,952,045	$ 87,254,827	$ 1,394,206,872

Interstate Power and Light
Rate Base Adjustments
Test Year ended December 31, 2001

Line No.	Description (A)	IPL Allocation Factors (B)	Tower Lease (C)	Power Plant Security (D)	Merger Benefits (E)	New Resource Planning	Cash Working Capital (G)	Plant Additions (H)	IPL-CIS Integration (I)	Post Test Year Comb. Initiatives (J)	Vehicle Replacement (K)	Dist. System Replacment (L)	Mandated Regulatory Study Costs	Total Adjustments (N)
1	Plant in Service	$ 3,857,016	$ (6,864,942)	$ 839,950		$ 16,364,381		$ 77,373,105	$ 3,550,524	$ 4,784,889	$ 1,421,036	$ 1,766,421	$ (11,024,241)	$ 92,068,139
2	Depr. And Amort.	$ (1,765,096)	$ -	$ (14,461)		$ (1,636,438)		$ (1,258,290)	$ 1,295,440	$ (239,244)	$ (54,994)	$ (29,764)		$ (3,702,847)
3	Deferred Taxes	$ 1,598,610												$ 1,598,610
	Customer Deposits	$ (43,854)												$ (43,854)
4	Unclaimed Property	$ (1,151)												$ (1,151)
5	Uncollectiblies	$ 9,259												$ 9,259
6	Liability for WC and I&D	$ 1,742												$ 1,742
7	Accrued Vacation	$ 93,175												$ 93,175
8	Accred Pension Obligation	$ (3,615)												$ (3,615)
9	Materials and Supplies	$ (404,431)			$ (1,572,168)	$ (2,075,887)								$ (4,052,486)
10	Prepayments	$ (23,373)												$ (23,373)
11	Fuel Inventory	$ 1,861,483												$ 1,861,483
	Cash Working Capital						$ (550,255)							$ (550,255)
	TOTAL	$ 5,179,765	$ (6,864,942)	$ 825,489	$ (1,572,168)	$ 12,652,056	$ (550,255)	$ 76,114,815	$ 4,845,964	$ 4,545,645	$ 1,366,042	$ 1,736,657	$ (11,024,241)	$ 87,254,827

SCHEDULE C

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
DETERMINATION OF CASH WORKING CAPITAL REQUIREMENTS
YEAR ENDED DECEMBER 31, 2001

		Days of Lag
	Estimated revenue lag:	
1	Metering period	15.20
2	Processing bills	2.70
3	Collection period	21.90
4	Total	**39.80**

						Pro Forma Adjustment		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Type of Expense	Amount	Expense Per Day (1)/365	Days Cash Required	Cash Requirement (2) x (3)	Pro forma Amount	Expense Per Day (5)/366	Cash Req. for Adjust. (3) x (6)
	Labor:							
5	Bi-weekly	$ 76,629,562	$ 209,944	26.8	$ 5,626,499			
6	Total Labor	$ 76,629,562	$ 209,944	26.8	$ 5,626,499	$ 1,894,587	$ 5,191	$ 139,119
	Fuel Burned:							
7	Coal, including freight	$ 101,776,687	$ 278,840	16.0	$ 4,461,440			
8	Oil	$ 4,436,381	$ 12,154	16.7	$ 202,972		$ -	$ -
9	Natural Gas	$ 18,316,091	$ 50,181	2.8	$ 140,507			
10	Furfural Residue	$ 94,907	$ 260	4.8	$ 1,248			
11	Methane Gas	$ 307,945	$ 844	14.8	$ 12,491			
12	Nuclear Fuel	$ 17,537,909	$ 48,049	(36.3)	$ (1,744,179)			
	Other (for pro forma adjustment only)					$ (6,041,237)	$ (16,551)	$ (130,753)
13	Total Fuel Burned	$ 142,469,920	$ 390,328	7.9	$ 3,074,479	$ (6,041,237)	$ (16,551)	$ (130,753)
14	Electricity purchased	$ 172,390,543	$ 472,303					
15	Off-system sales	$ (44,376,136)	$ (121,578)					
16	Electricity Purchased, net	$ 128,014,407	$ 350,725	6.8	$ 2,384,930	$ (6,189,045)	$ (16,956)	$ (115,301)
	Other operation and maintenance:							
17	Total operation and maintenance	$ 534,357,338	$ 1,463,993					
18	Less: Labor	$ 76,629,562	$ 209,944					
19	Fuel Burned	$ 142,469,920	$ 390,328					
20	Electricity purchased, before Off-system sales	$ 172,390,543	$ 472,303					
21	Total Other Operation and Maintenance	$ 142,867,313	$ 391,417	1.3	$ 508,842	$ (2,723,342)	$ (7,461)	$ (9,699)
	Other:							
22	Property taxes	$ 45,330,571	$ 124,193	(323.4)	$ (40,164,016)	$ 113,366	$ 311	$ (100,577)
23	Federal income taxes	$ 54,840,992	$ 150,249	0.8	$ 120,199	$ (5,007,387)	$ (13,719)	$ (10,975)
24	State income taxes	$ 19,754,562	$ 54,122	(14.0)	$ (757,708)	$ (4,114,777)	$ (11,273)	$ 157,822
25	Interest on long-term debt	$ 47,201,404	$ 129,319	(51.5)	$ (6,659,929)	$ 2,948,217	$ 8,077	$ (415,966)
26	Preferred dividends	$ 2,333,940	$ 6,394	(5.9)	$ (37,725)			
27	FICA taxes	$ 6,612,276	$ 18,116	24.0	$ 434,784	$ 141,439	$ 388	$ 9,312
28	Federal unemployment taxes	$ 49,409	$ 135	95.7	$ 12,920			
29	State unemployment taxes	$ 53,313	$ 146	75.8	$ 11,067			
30	External decommissioning fund	$ 6,008,004	$ 16,460	(5.8)	$ (95,468)	$ 4,609,000	$ 12,627	$ (73,237)
31	Total Other	$ 182,184,471	$ 499,134	(94.4)	$ (47,135,876)	$ (1,310,142)	$ (3,589)	$ (433,621)
32	Total	$ 672,165,673	$ 1,841,548	(19.3)	**$ (35,541,126)**	$ (14,369,179)	$ (39,366)	**$ (550,255)**

Interstate Power and Light
Income Statement
Test Year Ended December 31, 2001

Line No.	Description (A)	Iowa Only Book (B)		Adjustments (C)		Adjusted Total (D)		Additional Revenues Required to Yield 9.079%	Total Revenues Required to Yield 9.85%
								2.82%	
1	*Operating Revenue*	$928,993,430	$	(40,367,250)		$888,626,180	$	26,171,956	$914,798,136
2	*Operating Expenses*								
	Operation	$521,333,873	$	(37,489,236)		$483,844,637			$483,844,637
3	Maintenance	$62,770,083	$	(57,156)		$62,712,927			$62,712,927
4	Depr. And Amort.	$122,824,473	$	4,089,546		$126,914,019			$126,914,019
5	Property Taxes	$45,330,571	$	113,366		$45,443,937			$45,443,937
6	Misc. Taxes	$5,810,028	$	1,398,927		$7,208,955			$7,208,955
	Federal Income Taxes	$54,840,992	$	(13,241,084)		$41,599,908	$	8,233,697	$49,833,605
7	State Income Taxes	$19,754,562	$	(6,760,762)		$12,993,800	$	2,645,985	$15,639,785
8	Deferred Income Taxes	($18,672,785)	$	18,539,109		($133,676)			($133,676)
9	Investment Tax Credit	($2,849,018)	$	(397,077)		($3,246,095)			($3,246,095)
10	*Total Operating Expenses*	$811,142,779		($33,804,367)		$777,338,412	$	10,879,682	$788,218,094
11	Net Operating Income	$117,850,651	$	(6,562,883)		$111,287,768	$	15,292,274	$126,580,042
	Rate Base	$ 1,306,952,045	$	87,254,827	$	1,394,206,872			$1,394,206,872
									9.079%

Interstate Power and Light Company
Income Statement Adjustments
Test Year Ended December 31, 2001

SCHEDULE D
PAGE 2 OF 9

Line No.	Description (A)	IPL Alloc. Factors (B)	Demand Side Management (C)	Decrease Purch. Pow Sales (D)	Misc. Revenues (E)	FERC 888 Rev & Exp (F)	MAPP Out of Period Refund (G)	Decrease Property Taxes (H)
1	*Operating Revenue*	$ 2,859,623	($27,394,780)	$ (876,577)	$ (1,054,471)	$ (6,097,548)		
2	*Operating Expenses*							
3	Operation	$ 679,614	($24,487,355)			$ (6,349,481)	$618,396	
4	Maintenance	$ (1,299,133)						
5	Depr. And Amort.	$ (1,298,470)						
6	Property Taxes	$ 206,617						($93,251)
7	Misc. Taxes	$ 19,493						
8	Federal Taxes	$ 1,431,903	$ (914,676)	$ (275,771)	$ (331,737)	$ 79,258	$ (194,547)	$ 29,337
9	State Taxes	$ 460,157	$ (293,941)	$ (88,622)	$ (106,607)	$ 25,470	$ (62,520)	$ 9,428
10	*Deferred Income Taxes*							
	Investment Tax Credit							
	Total Expenses	$ 200,180	$ (25,695,972)	$ (364,393)	$ (438,344)	$ (6,244,752)	$ 361,329	$ (54,487)
11	Net Operating Income	$ 2,659,443	$ (1,698,808)	$ (512,184)	$ (616,127)	$ 147,204	$ (361,329)	$ 54,487

Interstate Power and Light Company
Income Statement Adjustments
Test Year Ended December 31, 2001

Postemploy Benefits (I)	Decrease Purchased Power Capacity (J)	Normalize DAEC Refueling Outage (K)	Out of Period Remainder Assessment (L)	Postage (M)	Insurance Expense (N)	Salaries and Wages (O)	Wheeling Expense (P)	Use Audit Amortization (Q)
$1,768,724	($6,189,045)	$ 204,023	$291,396	$184,708	$204,861	$1,400,220	$ 1,941,630	$ (159,355)
		$ (432,625)				$494,367		
						$ 141,439		$ 1,237,995
$ (556,441)	$ 1,947,074	$ 71,918	$ (91,673)	$ (58,109)	$ (64,449)	$ (640,534)	$ (610,837)	$ (339,340)
$ (178,818)	$ 625,712	$ 23,112	$ (29,460)	$ (18,674)	$ (20,711)	$ (205,842)	$ (196,299)	$ (109,051)
$ 1,033,465	$ (3,616,259)	$ (133,572)	$ 170,263	$ 107,925	$ 119,700	$ 1,189,650	$ 1,134,494	$ 630,249
$ (1,033,465)	$ 3,616,259	$ 133,572	$ (170,263)	$ (107,925)	$ (119,700)	$ (1,189,650)	$ (1,134,494)	$ (630,249)

Interstate Power and Light Company
Income Statement Adjustments
Test Year Ended December 31, 2001

Enterprise Security (R)	Levelize T&D Maint. Costs (S)	Levelize Steam Generat. Maintenance (T)	Levelize Uncollectibles to 3 Year Ave, (U)	Employee Benefits (V)	Eliminate Inventory Write-Off (W)	Int. on Customer Deposits (X)	Rate Case Expense (Y)	Net Merger Benefits (Z)
$ -			($3,335,418)	$1,448,446	(370,800)	$138,371	$595,103	($124,780)
	$ 906,823	$ -						
$ -	$ (285,287)	$ -	$ 1,049,323	$ (455,681)	$ 116,654	$ (43,532)	$ (187,219)	$ 39,256
$ -	$ (91,680)	$ -	$ 337,211	$ (146,438)	$ 37,488	$ (13,989)	$ (60,165)	$ 12,615
$ -	$ 529,857	$ -	$ (1,948,885)	$ 846,327	$ (216,658)	$ 80,850	$ 347,719	$ (72,909)
$ -	$ (529,857)	$ -	$ 1,948,885	$ (846,327)	$ 216,658	$ (80,850)	$ (347,719)	$ 72,909

Interstate Power and Light Company
Income Statement Adjustments
Test Year Ended December 31, 2001

Update Depreciation Study (AA)	Power Plant Security (AB)	Tower Lease (AC)	IT Infracstructure Costs (AD)	CEIDS Project (AE)	Line Clearance at 4 Year Cycle (AF)	Electric System Maintenance (AG)	Headquarter Lease (AH)	Meter Reading Errors (AI)
								$ (190,476)
	$864,974	$ 578,111	$ 1,226,804	$ 268,897			$ 627,548	
					$ -	$ 273,412		
$ (9,248,949)	$ 28,919	$ -						
$ 2,909,719	$ (281,219)	$ (181,874)	$ (385,953)	$ (84,595)	$ -	$ (86,015)	$ (197,427)	$ (59,924)
$ 935,069	$ (90,373)	$ (58,447)	$ (124,030)	$ (27,185)	$ -	$ (27,642)	$ (63,445)	$ (19,257)
$ (5,404,161)	$ 522,302	$ 337,790	$ 716,822	$ 157,117	$ -	$ 159,755	$ 366,676	$ (79,181)
$ 5,404,161	$ (522,302)	$ (337,790)	$ (716,822)	$ (157,117)	$ -	$ (159,755)	$ (366,676)	$ (111,295)

Interstate Power and Light Company
Income Statement Adjustments
Test Year Ended December 31, 2001

Nuclear Insurance (AJ)	Farm Rewiring Program (AK)	Sales Growth (AL)	Resource Planning System (AM)	MICP/EICP Awards (AN)	Loss of Four Retail Customers (AO)	Loss of Flex Rate Contracts (AP)	Significant Load Changes (AQ)	Second Nature Program (AR)
		$ 1,662,108			$ (3,815,668)	$ (316,884)	$ (5,068,868)	$ (18,785)
$ -	$ -	$ 353,645	$ (92,311)	$ (5,088,347)	$ (1,797,330)		$ (4,243,907)	$ (172,274)
			$ 3,272,876					
$ -	$ -	$ 411,642	$ (1,000,606)	$ 1,600,794	$ (634,969)	$ (99,692)	$ (259,533)	$ 48,288
$ -	$ -	$ 132,286	$ (321,555)	$ 514,432	$ (204,054)	$ (32,037)	$ (83,404)	$ 15,518
$ -	$ -	$ 897,573	$ 1,858,404	$ (2,973,121)	$ (2,636,353)	$ (131,729)	$ (4,586,843)	$ (108,469)
$ -	$ -	$ 764,535	$ (1,858,404)	$ 2,973,121	$ (1,179,315)	$ (185,155)	$ (482,025)	$ 89,684

Interstate Power and Light Company
Income Statement Adjustments
Test Year Ended December 31, 2001

SCHEDULE D
PAGE 7 OF 9

Move of Farm Customers to LPL Rate (AS)	Depr. Of Major Plant Additions (AT)	Depr. Of CIS Integration (AU)	Depr. On Combustion Initiatives (AV)	Eliminate Terra Comfort and Reflect Capacity Costs (AW)	Eliminate Red Cedar non-Fuel Expenses (AX)	Reliability Improvements (AY)	Major Planned Outages (AZ)
$ (48,290)				$ -	$ -		
		$ (286,258)			$ (2,106,541)		
						$ -	$ -
	$ 2,294,651	$ 1,069,656	$ 436,287				
$ (15,192)	$ (721,897)	$ (246,457)	$ (137,256)	$ -	$ 662,718	$ -	$ -
$ (4,882)	$ (231,989)	$ (79,202)	$ (44,109)	$ -	$ 212,971	$ -	$ -
$ (20,074)	$ 1,340,765	$ 457,739	$ 254,922	$ -	$ (1,230,852)	$ -	$ -
$ (28,216)	$ (1,340,765)	$ (457,739)	$ (254,922)	$ -	$ 1,230,852	$ -	$ -

Interstate Power and Light Company
Income Statement Adjustments
Test Year Ended December 31, 2001

SCHEDULE D
PAGE 8 OF 9

Depreciation from Vehicle Replacement (BA)	Depreciation of Distribution System (BB)	Decommissioning (BC)	Nuclear Mgmt Company Costs (BD)	FAS 87 Pension Expense (BE)	Eliminate Non-Property Deferred Taxes (BF)	Out of Period Income Taxes (BG)	Interest Syncronization (BH)	Resale Trans. Revenues (BI)
								$ 535,403
$ (85,397)			$ 574,434	$ 3,429,458				
$ 109,988	$ 59,528	$ 4,609,000						
$ (7,736)	$ (18,728)	$ (1,449,991)	$ (180,717)	$ (1,078,907)	$ (7,499,099)	$ (2,164,695)	$ (927,509)	$ 168,438
$ (2,486)	$ (6,018)	$ (465,970)	$ (58,075)	$ (346,718)	$ (2,409,914)	$ (3,201,249)	$ (298,065)	$ 54,129
					$ 9,636,940	$ 8,902,169		
						$ (397,077)		
$ 14,369	$ 34,782	$ 2,693,039	$ 335,642	$ 2,003,832	$ (272,073)	$ 3,139,148	$ (1,225,574)	$ 222,567
$ (14,369)	$ (34,782)	$ (2,693,039)	$ (335,642)	$ (2,003,832)	$ 272,073	$ (3,139,148)	$ 1,225,574	$ 312,836

Interstate Power and Light Company
Income Statement Adjustments
Test Year Ended December 31, 2001

3-Year Amort to reflect rev collection day diff (BJ)	4 Year Amort of Mandated Nuclear Study (BK)	TOTAL
$ (542,037)		$ (40,367,250)
		$ (37,489,236)
		$ (57,156)
	$ 2,756,060	$ 4,089,546
		$ 113,366
		$ 1,398,927
$ (170,525)	$ (867,056)	$ (13,241,084)
$ (54,800)	$ (278,638)	$ (6,760,762)
		$ 18,539,109
		$ (397,077)
$ (225,325)	$ 1,610,366	$ (33,804,367)
$ (316,712)	$ (1,610,366)	$ (6,562,883)

SCHEDULE E

Interstate Power and Light
Interest Syncronization
Test Year Ended December 31, 2001

Line No.	Description (A)	Amount (B)
1	Rate Base	$ 1,394,206,872
2	Weighted Cost of Debt	3.597%
3	Pro Forma Interest	$ 50,149,621
4	Book Interest	$ 47,201,404
5	Difference	$ 2,948,217
6	*Tax Adjustments*	
7	Federal Tax Rate (31.46%)	$ (927,509)
8	State Tax Rate (10.11%)	$ (298,065)

SCHEDULE F

Interstate Power and Light Company
Cost of Capital
Average 13-Month Ending December 31, 2001

Line No.	Description (A)	Amount (B)	Adjustments	Adjusted Total	Ratio (C)	Cost (D)	Weighted Cost (E)
	Long-Term Debt						
1	IPL	$812,853,770	$0	$812,853,770	48.567%	7.294%	3.542%
	Alliant	$10,624,667		$10,624,667	0.635%	8.590%	0.055%
2	Preferred and Preference Stock	$60,178,519	$0	$60,178,519	3.596%	6.086%	0.219%
3	Common Equity	$790,028,460	$0	$790,028,460	47.203%	11.15%	5.263%
		$1,673,685,416	$0	$1,673,685,416			
4	Total	$1,673,685,416			100.00%		9.0790%

ESTIMATED INCREASES BY CLASS ZONE

Customer Class Zones	Beginning Total Rate Revenue $ per kWh	Beg. Ratio To Class Average	Temp. Percent Change	Estimated Additional Final Percent Change	Estimated Total Final Percent Change	Estimated Final Total Rate Revenue $ per kWh	Final Ratio To Class Average
Residential							
IES - N	$0.1017	1.17	0.00 %	2.68 %	2.68 %	$0.1044	1.12
IES - S	$0.0617	0.71	8.00 %	8.00 %	16.64 %	$0.0719	0.77
IPC	$0.0827	0.95	2.67 %	6.17 %	9.00 %	$0.0901	0.97
	$0.0871	1.00				$0.0928	1.00
Farm							
IES - N	$0.0918	1.02	0.00 %	0.00 %	0.00 %	$0.0918	1.00
IPC	$0.0868	0.96	6.13 %	0.00 %	6.13 %	$0.0921	1.00
	$0.0901	1.00				$0.0919	1.00
Gen Service							
IES - N	$0.0910	1.12	0.00 %	(5.00)%	(5.00)%	$0.0864	1.08
IES - S	$0.0660	0.81	6.39 %	0.00 %	6.39 %	$0.0702	0.88
IES - SE	$0.0800	0.99	0.00 %	0.00 %	0.00 %	$0.0800	1.00
IPC	$0.0656	0.81	7.05 %	0.00 %	7.05 %	$0.0702	0.88
IPC (OPA)[1]	$0.0566	0.70	1.63 %	6.27 %	8.00 %	$0.0611	0.76
	$0.0810	1.00				$0.0800	1.00
Large GS							
IES - N	$0.0490	1.08	0.00 %	(1.71)%	(1.71)%	$0.0481	1.05
IES - S	$0.0385	0.85	6.70 %	2.16 %	9.00 %	$0.0419	0.91
IPC	$0.0450	0.99	0.00 %	2.34 %	2.34 %	$0.0460	1.00
	$0.0453	1.00				$0.0460	1.00
Bulk Power							
IPC	$0.0371		1.30 %	0.00 %	1.30 %	$0.0376	
Lighting							
IES - N	$0.1447	1.05	1.06 %	6.48 %	7.61 %	$0.1557	1.03
IES - S	$0.1173	0.85	8.00 %	6.48 %	15.00 %	$0.1349	0.90
IPC	$0.1466	1.06	0.00 %	6.48 %	6.48 %	$0.1561	1.04
	$0.1381	1.00				$0.1505	1.00
TOTAL			**1.80 %**	**1.09 %**	**2.91 %**		

[1] Other Public Authorities

ESTIMATED INCREASES BY CLASS ZONE - UNDER FULL EQUALIZATION

Customer Class Zones	Beginning Total Rate Revenue $ per kWh	Beg. Ratio To Class Average	Temp. Percent Change	Estimated Additional Final Percent Change	Estimated Total Final Percent Change	Estimated Final Total Rate Revenue $ per kWh	Final Ratio To Class Average
Residential							
IES - N	$0.1017	1.17	0.00 %	(5.28)%	(5.28)%	$0.0963	1.00
IES - S	$0.0617	0.71	8.00 %	44.60 %	56.17 %	$0.0963	1.00
IPC	$0.0827	0.95	2.67 %	13.46 %	16.49 %	$0.0963	1.00
	$0.0871	1.00				$0.0963	1.00
Farm							
IES - N	$0.0918	1.02	0.00 %	0.12 %	0.12 %	$0.0919	1.00
IPC	$0.0868	0.96	6.13 %	(0.23)%	5.89 %	$0.0919	1.00
	$0.0901	1.00				$0.0919	1.00
Gen Service							
IES - N	$0.0910	1.12	0.00 %	(18.65)%	(18.65)%	$0.0740	1.00
IES - S	$0.0660	0.81	6.39 %	5.38 %	12.11 %	$0.0740	1.00
IES - SE	$0.0800	0.99	0.00 %	(7.50)%	(7.50)%	$0.0740	1.00
IPC	$0.0656	0.81	7.05 %	5.38 %	12.81 %	$0.0740	1.00
IPC (OPA)[1]	$0.0566	0.70	1.63 %	28.66 %	30.76 %	$0.0740	1.00
	$0.0810	1.00				$0.0740	1.00
Large GS							
IES - N	$0.0490	1.08	0.00 %	(6.16)%	(6.16)%	$0.0460	1.00
IES - S	$0.0385	0.85	6.70 %	11.90 %	19.40 %	$0.0460	1.00
IPC	$0.0450	0.99	0.00 %	2.20 %	2.20 %	$0.0460	1.00
	$0.0453	1.00				$0.0460	1.00
Bulk Power							
IPC	$0.0371		1.30 %	(3.40)%	(2.14)%	$0.0363	
Lighting							
IES - N	$0.1447	1.05	1.06 %	12.04 %	13.23 %	$0.1638	1.00
IES - S	$0.1173	0.85	8.00 %	29.29 %	39.63 %	$0.1638	1.00
IPC	$0.1466	1.06	0.00 %	11.77 %	11.77 %	$0.1638	1.00
	$0.1381	1.00				$0.1638	1.00
TOTAL			**1.80 %**	**1.09 %**	**2.91 %**		

[1] Other Public Authorities